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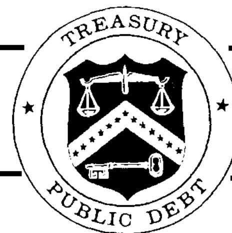
Department of the Treasury

PRESS RELEASES

The following numbers were not used:
1753, 1785, and 1786

PUBLIC DEBT NEWS

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



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

FOR IMMEDIATE RELEASE
May 1, 1997

Contact: Peter Hollenbach
(202) 219-3302

BUREAU OF THE PUBLIC DEBT ANNOUNCES SERIES EE SAVINGS BOND RATE FOR MAY THROUGH OCTOBER 1997

The Bureau of the Public Debt announced today the rate for Series EE savings bonds issued on or after May 1, 1997.

NEW SERIES EE SAVINGS BOND RATE -5.68%

The 5.68 percent Series EE savings bond rate is in effect for bonds issued on or after May 1, 1997, that enter semiannual earnings periods from May through October 1997. The rate is 90 percent of the average 5-year Treasury securities yields for the preceding six months. A new interest rate is announced each May 1 and November 1. A 3-month interest penalty is applied to these bonds if redeemed before five years. New Series EE bonds increase in value monthly. The bond's interest rate is compounded semiannually.

SERIES EE BONDS ISSUED BEFORE MAY 1997

The 4.63 percent Short-Term Series EE savings bond rate is in effect for bonds issued from May 1995 through April 1997 for bonds that enter semiannual earnings periods from May through October 1997. See the table on the back of this release for earnings on Series EE bonds issued from January 1980.

MATURED SERIES E SAVINGS BONDS AND SAVINGS NOTES

Series E savings bonds and Savings Notes continue to reach final maturity and stop earning interest. Bonds issued from May 1941 through April 1957, along with those issued from December 1965 through April 1967, have stopped earning interest. Savings Notes, issued from May 1967 through October 1970, are reaching the end of their 30-year interest earning life. Bonds and Notes with issues dates shown here will reach final maturity in the next six months.

Bond/Note Issue Dates	Bonds /Notes Stop Earning Interest
May 1957 through October 1957	May 1997 through October 1997
May 1967 through October 1967	May 1997 through October 1997

MORE INFORMATION

The latest *United States Savings Bonds/Notes Earnings Report* and other useful information about savings bonds is available at Public Debt's Internet Home Page (HTTP:/www.publicdebt.treas.gov). Download the Savings Bond Wizard ™ an easy to use program that lets you keep track of your savings bonds and value your portfolio. The table on the back of this bulletin shows actual yields for Series EE bonds. The Earnings Report, which contains rate and yield information for Series E&EE bonds and Savings Notes, is also available by mail from Public Debt. Send a postcard asking for "Earnings Report" to Bureau of the Public Debt 200 Third Street, Parkersburg, WV 26106-1328.

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$100 SERIES EE BONDS – MAY 1997 THROUGH APRIL 1998

This table shows semiannual values for $100 Series EE Bonds*. Values for other denominations are proportional to the values shown. For example, the value of a $50 bond is one-half the amount shown and the value of a $500 bond is five times the amount shown. The Current Earnings column shows the annual yield that the bonds will earn during the period indicated. The Earnings From Issue is the bond's yield from its issue date to the date shown or date adjusted as shown in the footnotes.

Series EE Bond	Earning Period		Earnings to Date when held 5 years****				Redemption Value****	
Issue Dates	Start Date**	End Date**	Start Value	End Value	Current Earnings***	Earnings From Issue	Start Value	End Value
5/1/97 - 10/1/97	5/1/97	11/1/97	50.00	51.44	5.76%	5.76%	50.00	50.72

Series EE Bond	Earning Period				Current	Earnings from
Issue Dates	Start Date**	End Date**	Start Value	End Value	Earnings***	Issue
11/96 - 4/97	5/1/97	11/1/97	51.16	52.36	4.69%	4.67%
5/96 - 10/96	5/1/97	11/1/97	52.24	53.44	4.59%	4.49%
11/95 - 4/96	5/1/97	11/1/97	53.52	54.76	4.63%	4.60%
5/95 - 10/95	5/1/97	11/1/97	54.92	56.20	4.66%	4.73%
11/94 - 4/95	5/1/97	11/1/97	55.24	56.32	3.91%	4.01%
5/94 - 10/94	5/1/97	11/1/97	56.32	57.44	3.98%	4.00%
11/93 - 4/94	5/1/97	11/1/97	57.44	58.60	4.04%	4.01%
5/93 - 10/93	5/1/97	11/1/97	58.60	59.76	3.96%	4.00%
3/93 - 4/93	9/1/97	3/1/98	59.76	64.60	16.20%	5.19%
11/92 - 2/93	5/1/97	11/1/97	64.56	67.20	8.18%	6.00%
5/92 - 10/92	5/1/97	11/1/97	67.20	69.24	6.07%	6.01%
11/91 - 4/92	5/1/97	11/1/97	69.24	71.32	6.01%	6.01%
5/91 - 10/91	5/1/97	11/1/97	71.32	73.44	5.95%	6.00%
11/90 - 4/91	5/1/97	11/1/97	73.44	75.64	5.99%	6.00%
5/90 - 10/90	5/1/97	11/1/97	75.64	77.92	6.03%	6.00%
11/89 - 4/90	5/1/97	11/1/97	77.92	80.24	5.95%	6.00%
5/89 - 10/89	5/1/97	11/1/97	80.24	82.68	6.08%	6.01%
11/88 - 4/89	5/1/97	11/1/97	82.68	85.16	6.00%	6.01%
5/88 - 10/88	5/1/97	11/1/97	85.16	87.68	5.92%	6.00%
11/87 - 4/88	5/1/97	11/1/97	87.68	90.32	6.02%	6.00%
5/87 - 10/87	5/1/97	11/1/97	90.32	93.04	6.02%	6.00%
11/86 - 4/87	5/1/97	11/1/97	93.04	95.84	6.02%	6.00%
5/86 - 10/86	5/1/97	11/1/97	108.68	110.84	3.97%	7.04%
11/85 - 4/86	5/1/97	11/1/97	110.84	113.08	4.04%	6.92%
5/85 - 10/85	5/1/97	11/1/97	113.08	115.32	3.96%	6.80%
11/84 - 4/85	5/1/97	11/1/97	115.32	117.64	4.02%	6.69%
5/84 - 10/84	5/1/97	11/1/97	117.64	120.32	4.56%	6.61%
11/83 - 4/84	5/1/97	11/1/97	122.68	126.00	5.41%	6.71%
5/83 - 10/83	5/1/97	11/1/97	128.04	131.48	5.37%	6.78%
3/83 - 4/83	9/1/97	3/1/98	135.04	138.76	5.51%	6.92%
11/82 - 2/83	5/1/97	11/1/97	136.28	140.36	5.99%	7.00%
5/82 - 10/82	5/1/97	11/1/97	152.96	157.56	6.01%	7.54%
11/81 - 4/82	5/1/97	11/1/97	157.56	162.28	5.99%	7.50%
5/81 - 10/81	5/1/97	11/1/97	162.28	167.16	6.01%	7.45%
11/80 - 4/81	5/1/97	11/1/97	171.20	176.36	6.03%	7.55%
5/80 - 10/80	5/1/97	11/1/97	185.04	190.56	5.97%	7.79%
1/80 - 4/80	7/1/97	1/1/98	188.68	194.36	6.02%	7.69%

* Monthly increases in value for bonds issued May 1997 and after (and some earlier bonds) are not shown in the table.

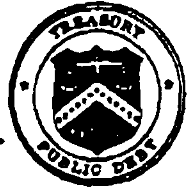
** Each "Start Date" and "End Date" is for the first date of the range in the "Issue Dates" column. Add one month for each later issue month. For example, a bond issued in 7/96 would be worth $52.24 on 7/1/97 and $53.44 on 1/1/98.

*** Yields and savings bond rates may not agree due to rounding and due to the methodology for computing market-based yields for bonds issued prior to May 1, 1995.

**** A bond issued on or after May 1, 1997 is assessed a three-month interest penalty if redeemed less than five years after its issue date. "Redemption Value" shows bond values after penalty. "Earnings to date when held 5 years" shows the amount upon which future earnings will compound.

AUCTION RESULTS

PUBLIC DEBT NEWS



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

FOR IMMEDIATE RELEASE
May 5, 1997

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for $7,041 million of 13-week bills to be issued May 8, 1997 and to mature August 7, 1997 were accepted today (CUSIP: 912794SH3).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	5.13%	5.27%	98.703
High	5.14%	5.28%	98.701
Average	5.14%	5.28%	98.701

Tenders at the high discount rate were allotted 45%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$62,971,552	$7,041,342
Type		
Competitive	$61,176,504	$5,246,294
Noncompetitive	1,520,948	1,520,948
Subtotal, Public	$62,697,452	$6,767,242
Foreign Official Institutions	274,100	274,100
TOTALS	$62,971,552	$7,041,342

In addition, $4,308,010 thousand was awarded to the Federal Reserve Banks for their own accounts.

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AUCTION RESULTS

PUBLIC DEBT NEWS

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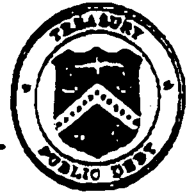


FOR IMMEDIATE RELEASE
May 5, 1997

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for $7,107 million of 26-week bills to be issued May 8, 1997 and to mature November 6, 1997 were accepted today (CUSIP: 9127945T7).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	5.35%	5.58%	97.295
High	5.37%	5.60%	97.285
Average	5.37%	5.60%	97.285

Tenders at the high discount rate were allotted 15%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

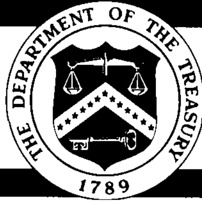
	Received	Accepted
TOTALS	$44,176,022	$7,106,962
Type		
Competitive	$39,490,817	$2,421,757
Noncompetitive	1,285,505	1,285,505
Subtotal, Public	$40,776,322	$3,707,262
Foreign Official Institutions	3,399,700	3,399,700
TOTALS	$44,176,022	$7,106,962

In addition, $3,495,000 thousand was awarded to the Federal Reserve Banks for their own accounts.

5.36 -- 97.290

RR-1666

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
May 5, 1997

Contact: Michelle Smith
525-327-7700, Room 3620
Mexico City cellphone: 525-104-0526

PRESS ADVISORY

U.S. Treasury Secretary Robert E. Rubin and Mexican Treasury Secretary Guillermo Ortiz will tour a youth training and services center at 3 p.m. Tuesday, May 6, at 148 Zoquipa, Col. El Parque, Venustiano Carranza in Mexico City.

The event is open to the press and will conclude with a press availability with the two finance ministers.

The Fundacion Bartolome De Las Casas offers basic education and literacy training, outreach activities, and health and housing services to youths ages 16-24. The non-profit organization is funded in part by a grant from the Inter-American Development Bank's Multilateral Investment Fund, as well as by private donations.

Cameras may set up at 2 p.m. and other press wishing to cover the event should arrive before 2:30 p.m.

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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
May 5, 1997

Contact: Kelly Crawford
(202) 622-2960

RUBIN AND ORTIZ ANNOUNCE MANAGEMENT CHANGES AT NADBANK

Treasury Secretary Robert E. Rubin and Mexican Finance Minister Guillermo Ortiz, on behalf of the Board of Directors of the North American Development Bank (NADBank), named Victor Miramontes as the new Managing Director of the Bank. In addition, they selected Raul Rodriguez to replace Mr. Miramontes as the Deputy Managing Director.

"I have been very pleased with the work of the NADBank management team during the past two years. The selection of Victor Miramontes and Raul Rodriguez ensures continuity in the Bank's efforts to improve border environmental conditions," Rubin said. "I would also like to take this opportunity to express my personal thanks to former Managing Director Alfredo Phillips for shepherding the Bank through its start-up phase into a Bank that is having a real impact on the border today."

Mr. Miramontes has been the Bank's Deputy Managing Director and Chief Operating Officer since December 1994. He is largely responsible for the Bank's policy development and its relations with the U.S. Congress, U.S. agencies, and border state governments. Prior to working for the Bank, he was Vice President and Regional Manager of Wells Fargo Bank of San Antonio, Texas, with considerable experience in financing infrastructure projects in the border region.

Mr. Rodriguez was appointed Director of Project Development and Finance at the NADBank in early 1995. He has played the central role in developing the Bank's first projects and establishing its institutional development program. Prior to joining the Bank, he has served as Executive Director of the Mexican Foreign Trade Bank, Mexico's Trade Commissioner in Canada, and Secretary of Economic Development for the border State of Tamaulipas.

The NADBank, which is capitalized and governed by the U.S. and Mexican governments, is designed to finance environmental infrastructure projects along the U.S./Mexico border, particularly in the areas of water, wastewater treatment, and municipal solid waste. The Bank has already approved financing packages for four border projects, two in the United States and two in Mexico.

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For press releases, speeches, public schedules and official biographies, call our 24-hour fax line at (202) 622-2040

PUBLIC DEBT NEWS

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

FOR RELEASE AT 3:00 PM
May 6, 1997

Contact: Peter Hollenbach
(202) 219-3302

PUBLIC DEBT ANNOUNCES ACTIVITY FOR SECURITIES IN THE STRIPS PROGRAM FOR APRIL 1997

Treasury's Bureau of the Public Debt announced activity figures for the month of April 1997, of securities within the Separate Trading of Registered Interest and Principal of Securities program (STRIPS).

	Dollar Amounts in Thousands
Principal Outstanding (Eligible Securities)	$967,571,462
Held in Unstripped Form	$738,395,526
Held in Stripped Form	$229,175,936
Reconstituted in April	$10,907,454

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 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 VI - HOLDINGS OF TREASURY SECURITIES IN STRIPPED FORM, APRIL 10, 1997

Loan Description			Corpus STRIP CUSIP	Maturity Date	Principal Amount Outstanding in Thousands			Reconstituted This Month
					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	7,148,037	2,773,200	57,200
VE9	B	8-5/8	AK3	08/15/97	9,362,836	6,225,236	3,137,600	80,000
VN9	C	8-7/8	AL1	11/15/97	9,808,329	5,598,729	4,209,600	12,800
VW9	A	8-1/8	AM9	02/15/98	9,159,068	6,411,868	2,747,200	58,240
WE8	B	9	AN7	05/15/98	9,165,387	6,431,187	2,734,200	15,800
WN8	C	9-1/4	AP2	08/15/98	11,342,646	8,050,646	3,292,000	16,000
WW8	D	8-7/8	AQ0	11/15/98	9,902,875	6,293,275	3,609,600	0
XE7	A	8-7/8	AR8	02/15/99	9,719,623	7,903,623	1,816,000	59,200
XN7	B	9-1/8	AS6	05/15/99	10,047,103	6,792,703	3,254,400	75,200
XW7	C	8	AT4	08/15/99	10,163,644	7,119,369	3,044,275	122,600
YE6	D	7-7/8	AU1	11/15/99	10,773,960	7,146,760	3,627,200	0
YN6	A	8-1/2	AV9	02/15/00	10,673,033	8,149,033	2,524,000	57,200
YW6	B	8-7/8	AW7	05/15/00	10,496,230	5,598,630	4,897,600	86,400
ZE5	C	8-3/4	AX5	08/15/00	11,080,646	7,432,166	3,648,480	347,360
ZN5	D	8-1/2	AY3	11/15/00	11,519,682	7,372,082	4,147,600	50,000
ZX3	A	7-3/4	AZ0	02/15/01	11,312,802	7,946,402	3,366,400	9,600
A85	B	8	BA4	05/15/01	12,398,083	8,792,008	3,606,075	131,700
B92	C	7-7/8	BB2	08/15/01	12,339,185	8,470,385	3,868,800	83,200
D25	D	7-1/2	BC0	11/15/01	24,226,102	20,951,062	3,275,040	141,840
F49	A	7-1/2	BD8	05/15/02	11,714,397	9,844,397	1,870,000	75,760
G55	B	6-3/8	BE6	08/15/02	23,859,015	22,527,815	1,331,200	260,800
J78	A	6-1/4	BF3	02/15/03	23,562,691	23,186,339	376,352	87,104
L83	B	5-3/4	BG1	08/15/03	28,011,028	27,610,228	400,800	85,600
N81	A	5-7/8	BH9	02/15/04	12,955,077	12,851,077	104,000	0
P89	B	7-1/4	BJ5	05/15/04	14,440,372	14,433,972	6,400	0
Q88	C	7-1/4	BK2	08/15/04	13,346,467	13,296,867	49,600	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	15,509,427	4,160	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	13,103,678	13,103,678	0	0
Treasury Bonds:								
CUSIP:		Interest Rate:						
912810 DM7		11-5/8	912803 AB9	11/15/04	8,301,806	3,887,406	4,414,400	171,200
DQ8		12	AD5	05/15/05	4,260,758	1,884,658	2,376,100	381,000
DR6		10-3/4	AG8	08/15/05	9,269,713	7,148,113	2,121,600	420,800
DU9		9-3/8	AJ2	02/15/06	4,755,916	4,740,364	15,552	0
DN5		11-3/4	912800 AA7	11/15/14	6,005,584	1,888,784	4,116,800	136,800
DP0		11-1/4	912803 AA1	02/15/15	12,667,799	9,658,039	3,009,760	509,760
DS4		10-5/8	AC7	08/15/15	7,149,916	5,467,676	1,682,240	288,320
DT2		9-7/8	AE3	11/15/15	6,899,859	4,925,459	1,974,400	139,200
DV7		9-1/4	AF0	02/15/16	7,266,854	6,747,654	519,200	81,600
DW5		7-1/4	AH6	05/15/16	18,823,551	18,453,951	369,600	246,400
DX3		7-1/2	AK9	11/15/16	18,864,448	18,061,728	802,720	100,000
DY1		8-3/4	AL7	05/15/17	18,194,169	9,892,089	8,302,080	248,000
DZ8		8-7/8	AM5	08/15/17	14,016,858	8,074,458	5,942,400	892,800
EA2		9-1/8	AN3	05/15/18	8,708,639	3,665,439	5,043,200	140,800
EB0		9	AP8	11/15/18	9,032,870	3,043,470	5,989,400	282,200
EC8		8-7/8	AQ6	02/15/19	19,250,798	5,127,598	14,123,200	246,400
ED6		8-1/8	AR4	08/15/19	20,213,832	18,428,872	1,784,960	224,000
EE4		8-1/2	AS2	02/15/20	10,228,868	5,911,668	4,317,200	110,000
EF1		8-3/4	AT0	05/15/20	10,158,883	3,769,603	6,389,280	384,640
EG9		8-3/4	AU7	08/15/20	21,418,606	5,984,526	15,434,080	476,800
EH7		7-7/8	AV5	02/15/21	11,113,373	9,978,973	1,134,400	329,600
EJ3		8-1/8	AW3	05/15/21	11,958,888	5,374,568	6,584,320	287,040
EK0		8-1/8	AX1	08/15/21	12,163,482	4,966,682	7,196,800	246,400
EL8		8	AY9	11/15/21	32,798,394	6,133,844	26,664,550	709,850
EM6		7-1/4	AZ6	08/15/22	10,352,790	8,312,790	2,040,000	20,000
EN4		7-5/8	BA0	11/15/22	10,699,626	3,133,226	7,566,400	384,000
EP9		7-1/8	BB8	02/15/23	18,374,361	14,169,561	4,204,800	254,400
EQ7		6-1/4	BC6	08/15/23	22,909,044	20,188,852	2,720,192	336,000
ES3		7-1/2	BD4	11/15/24	11,469,662	3,398,142	8,071,520	146,800
ET1		7-5/8	BE2	02/15/25	11,725,170	5,867,570	5,857,600	585,600
EV6		6-7/8	BF9	08/15/25	12,602,007	12,272,407	329,600	207,040
EW4		6	BG7	02/15/26	12,904,916	12,775,516	129,400	6,400
EX2		6-3/4	BH5	08/15/26	10,893,818	10,681,018	212,800	0
EY0		6-1/2	BJ1	11/15/26	11,493,177	11,479,577	13,600	0
EZ7		6-5/8	BK8	02/15/27	10,456,071	10,456,071	0	0
Treasury Inflation-Indexed Notes:								
CUSIP	Series	Interest Rate						
912827 2M3	A	3-3/8	912820 BV8	01/15/07	15,872,059	15,872,059	0	0
Total					967,571,462	738,395,526	229,175,936	10,907,454

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) and on the Bureau of the Public Debt's website at http://www.publicdebt.treas.gov. For more information about EBB, call (202) 482-1966. 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

EMBARGOED UNTIL 2:30 P.M.
May 6, 1997

CONTACT: Office of Financing
202/219-3350

TREASURY'S WEEKLY BILL OFFERING

The Treasury will auction two series of Treasury bills totaling approximately $15,000 million, to be issued May 15, 1997. This offering will result in a paydown for the Treasury of about $5,075 million, as the maturing publicly-held weekly bills are outstanding in the amount of $20,065 million.

In addition to the public holdings, Federal Reserve Banks for their own accounts hold $7,145 million of the maturing bills, 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 $3,327 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.

oOo

Attachment

RR-1670

HIGHLIGHTS OF TREASURY OFFERINGS OF WEEKLY BILLS
TO BE ISSUED MAY 15, 1997

May 6, 1997

Offering Amount	$7,500 million	$7,500 million
Description of Offering:		
Term and type of security	91-day bill	182-day bill
CUSIP number	912794 5J 9	912794 2W 3
Auction date	May 12, 1997	May 12, 1997
Issue date	May 15, 1997	May 15, 1997
Maturity date	August 14, 1997	November 13, 1997
Original issue date	February 13, 1997	November 14, 1996
Currently outstanding	$13,227 million	$20,142 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

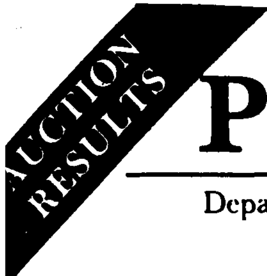
Maximum Award . . . . 35% of public offering

Receipt of Tenders:

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

Competitive tenders . . . . Prior to 1:00 p.m. Eastern Daylight Saving 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



PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
May 6, 1997

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 3-YEAR NOTES

Tenders for $17,001 million of 3-year notes, Series V-2000, to be issued May 15, 1997 and to mature May 15, 2000 were accepted today (CUSIP: 9128272T8).

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

	Yield	Price
Low	6.430%	99.852
High	6.449%	99.801
Average	6.438%	99.831

Tenders at the high yield were allotted 13%.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$35,363,531	$17,000,851

The $17,001 million of accepted tenders includes $967 million of noncompetitive tenders and $16,034 million of competitive tenders from the public.

In addition, $1,246 million of tenders was awarded at the average price to Federal Reserve Banks as agents for foreign and international monetary authorities. An additional $2,479 million of tenders was also accepted at the average price from Federal Reserve Banks for their own account in exchange for maturing securities.

RR-1671

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED UNTIL 8:30 A.M. EDT
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May 7, 1997

HONG KONG'S PIVOTAL ROLE IN SHAPING CHINA'S FUTURE

Deputy Treasury Secretary Lawrence H. Summers
Hong Kong Trade Development Council
New York City

INTRODUCTION

Hong Kong never ceases to amaze me. My recent visit to Hong Kong was no exception. I was impressed not only by the city's 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 85 of the world's top 100 banks, and some of the world's shrewdest financial professionals in both the public and private sectors.

As recently pointed out by my colleague and friend, Andrew Sheng, the Deputy Chief Executive of the Hong Kong Monetary Authority, Hong Kong is perhaps the world's leading example of the economy of the future -- a virtual economy -- where services account for about 82% of GDP, as compared to 76% here and 62% in Japan, and the bulk of the manufacturing activity of its firms is done outside its territorial boundaries. It is thus by its very nature, perhaps more so than any other economy in the world, highly dependent on the free flow of information (over 700 newspapers and periodicals are based there), the rule of law and the transparency of the regulatory environment.

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 there, 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 in Hong Kong. The 1100 US firms that have invested $14 billion in Hong Kong employ some 250,000 people, nearly 10% of the work force.

RR-1672

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. And what we are doing to cement the commitment to two systems.

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 -- perhaps, the purest example of an open market economy -- by a society in the midst of transition from a socialist, command economy. What's even more striking, the new sovereign power has made strong commitments that guarantee the continued existence of the 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 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 its extremely competent civil service.
    - Hong Kong is also to retain its status as an international financial center, and its own currency -- separate from the yuan.
- Hong Kong's financial and economic civil servants are recognized as world class by their global counterparts. Secretary Rubin and I frequently meet with our Hong Kong counterparts. In my most recent trip to Asia, I met with my Hong Kong counterpart at the Six Markets gathering of finance and monetary officials in Tokyo.
    - Thus, the February decision by Hong Kong's Chief-Executive designate, C.H.

Tung, 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.

  - 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.

At least so far, the markets have evaluated these aspects of the transition favorably.

- The Hang Seng Index peaked in January at its highest levels since 1994, before following the U.S. market down and then back up again.

- It is also noteworthy that Hong Kong's government borrows in Hong Kong dollars at rates nearly equal to those of the United State government for periods of up to two and a half 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. 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.

- 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.

        - → 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 (Sheng's virtual economies); and the inclusion of millions of Asians in an unparalleled 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 pointed out for example that Hong Kong borrows at a lower cost that U.S. Treasuries. But if you look further out on the yield curve the markets are saying something less reassuring.

Markets have evaluated the transition developments and preparations favorably and do not expect negative developments in the near terms. But the yield curve starts to rise significantly after two and half years, and by 10 years out the spread over U.S. Treasuries is nearly 80 basis points. This is the market's way of speaking to Beijing. Few predict problems in the short term, but there is wariness about the longer term.

Such wariness is understandable from my visit. I sensed that some believe that politics and economics are somehow mutually exclusive. My impression has been reinforced by a recent decision of the National People's Congress to repeal certain amendments to some Hong Kong laws, including to the Bill of Rights Ordinance and the societies and public order ordinances. This decision has fueled widespread concern in Hong Kong and abroad that Hong Kong's civil liberties and individual freedoms will be restricted after reversion.

On this my message is simple: 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.

A poor handling of the transition would not only be disastrous for the Hong Kong economy, the loss to China would also 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.

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 for China's system to become more like Hong Kong's than the other way around.

HONG KONG RETAINS SEPARATE STATUS IN U.S. POLICY

Suffice it to say that the U.S. Administration will be watching closely how events unfold in Hong Kong, including with regard to how these events affect U.S. interests and our stake in both Hong Kong and China's success.

It is reassuring to us that when Vice Premier Qian was in Washington last week he reaffirmed China's commitment to two systems. We are going to take him literally and continue to treat Hong Kong as autonomous economic entity. We will continue to promote a framework of bilateral and multilateral agreements that support Hong Kong's autonomy from China, an objective made clear in the U.S./Hong Kong Policy Act.

The U.S./Hong Kong Policy Act establishes domestic legal authority to continue to treat Hong Kong as an entity distinct from the PRC for certain purposes.

- Hong Kong will continue to be treated as a separate partner in trade by the United States. This means that Hong Kong will be retain its separate textile quota; we will maintain

separate statistics on our bilateral trade with Hong Kong; and we will negotiate trade agreements with Hong Kong. We have, in fact, just recently signed an air services agreement with Hong Kong.

- Hong Kong will also be treated as a distinct entity for the purposes of U.S. taxation.

- We will continue to work directly with Hong Kong officials on law enforcement issues --where success depends on [1] the structure provided by bilateral agreements, [2] a significant law enforcement presence, and [3] close collaboration with our counterparts.

  - Last month, we signed a prisoner transfer agreement and a mutual legal assistance agreement with Hong Kong. A U.S./Hong Kong extradition agreement which was signed earlier is now before the Senate for its advice and consent to ratification.

  - Our enforcement presence has been expanded in recent years with additional FBI and INS officers stationed in Hong Kong and the opening of an office of the Secret Service in Hong Kong last year. There are no plans to reduce this presence.

  - Finally, in the realm of enforcement, we at Treasury look forward to continuing and intensifying our close collaboration with Hong Kong authorities on a wide array of efforts to fight organized crime -- narcotics trafficking, money laundering and smuggling.

- As I noted earlier, our people and our enterprises have strong ties with Hong Kong. Reflecting the breath and depth of our relationship with Hong Kong, our Consulate in Hong Kong is one of our largest in Asia, with over 140 direct-hire U.S. officials and a dozen separate USG agencies.

  - Negotiations with the government of China to maintain our Consulate General in Hong Kong, after July 1, have been concluded. We have successfully reached an agreement with no limitations on size of our Consulate or existing operations.

  - We are, in fact, discussing within our government the possibility of stationing a Treasury official in Hong Kong to more closely manage our growing financial relationship with Hong Kong and the region. This would be our only presence in Asia outside of Tokyo.

Reinforcing its role as a separate player in the financial arena, we will continue to support and encourage Hong Kong's participation in the multilateral financial institutions and organizations. Hong Kong has ensconced itself well in the international financial system. These are moves that China has supported.

- Hong Kong is a participant in the New Arrangements to Borrow established by the

international financial community last year. It was among the select few recently invited to join 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.

CONCLUSION

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. And we will continue to deliver our message that there is no fire wall between economic and other freedoms.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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May 7,1997

Monthly Release of U.S. Reserve Assets

The Treasury Department today released U.S. reserve assets data for the month of April 1997.

As indicated in this table, U.S. reserve assets amounted to $65,872 million at the end of April 1997, down from $67,222 million in March 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						
March	67,222r	11,050r	9,879	14,573	17,874	13,846
April	65,872p	11,050p	9,726	14,139	17,297	13,660

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/ Includes holdings of Treasury and Federal Reserve System; beginning November 1978, these 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-1673

DEPARTMENT OF THE TREASURY

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FOR IMMEDIATE RELEASE
May 7, 1997

Contact: Kelly Crawford
202-622-2960

G-10 Working Party Releases Study on Key E-Money Issues

The Treasury Department announced today the release of a report by a working party of the Deputies of the G-10 finance ministers and central bank governors on Electronic Money. The report outlines a set of key considerations that should help guide national approaches to emerging electronic money technologies.

The Working Party on Electronic Money was formed after the G-7 Heads of State and Government, at the 1996 summit meeting in Lyon, called for a cooperative study of the implications of recent technological advances in retail electronic payments. In particular, they sought ways to ensure that the benefits of electronic money are fully realized. The report also includes a survey of the approaches to electronic money issues in each of the G-10 countries.

"The report provides a valuable assessment of the benefits and risks of the new forms of electronic payments and the policy issues we confront in this area," said Lawrence Summers, Deputy Secretary of the Treasury. REPRESENTATIVES of the G-10 countries have endorsed a common set of considerations for new consumer electronic money products."

The four key considerations they identified address national and cross-border challenges in the implementation and use of electronic money by consumers and providers and for governments in the development of national policies:

- **Transparency**
- **Financial integrity**
- **Technical security**
- **Vulnerability to criminal activity**

The Working Party, headed by Timothy Geithner of the U.S. Treasury, brought together representatives from finance ministries, central banks, and law enforcement authorities. They also benefitted from consultations with private sector representatives from most of the countries participating in the Working Party.

RR-1674

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The Working Party addressed three broad policy areas: consumer protection, law enforcement, and supervision. The report found that most countries are reviewing the application of existing law to new electronic money issues in all three areas, given the early stage of development of these new products. Many governments are weighing the degree to which market incentives can be used to achieve public policy objectives.

"Authorities in many countries view the application of new regulations as premature, choosing instead to assess the impact of market discipline on the ways in which providers manage their financial and operational risks," Summers said. The report also noted that countries may need to consider how best to design national policies to minimize impediments to the cross border use of electronic money products.

The report concluded that the Working Party provided a useful forum in bringing together the perspectives of diverse authorities within the G-10 countries, and that a similar effort might be useful in the future if circumstances warrant. However, it is not necessary at this time to establish new formal international structures to coordinate a policy response to electronic money.

The U.S. delegation to the G-10 Working Party was led by officials from the Federal Reserve Board and from the Office of the Comptroller of the Currency.

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Note: Copies of the G-10 Working Party report on Electronic Money are available at the courier window of the U.S. Treasury Department.

Key Considerations

Transparency. Potential users can best make informed choices about the relative merits of electronic money products if their features, costs, and risks are sufficiently transparent. Useful disclosures for consumers could include information about significant user rights, relevant information on the issuer and its obligations towards consumers, applicability of any deposit insurance or other guarantees, and intentions regarding any use of personal data.

Financial Integrity. The financial integrity of any electronic money issuer rests importantly on adequate liquidity, capital, and internal controls. Liquidity should be adequate to ensure that issuers can meet demands for funds; investment policies should be appropriate to ensure the solvency of the electronic money scheme; management should establish risk management policies and procedures and internal controls consistent with protecting the financial integrity of the scheme.

Technical security. Technical security measures have important implications for the financial and operational reliability of an electronic money scheme. These measures should be assessed comprehensively with the aim of protecting against fraud or counterfeiting attacks that could threaten the overall integrity of the electronic money scheme.

Vulnerability to criminal activity. The design of electronic money schemes can affect importantly the risks of criminal usage of and attacks on electronic money. As a result, realistic evaluation should be conducted of the vulnerabilities of particular products to these risks.

AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
May 7, 1997

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 10-YEAR NOTES

Tenders for $12,001 million of 10-year notes, Series C-2007, to be issued May 15, 1997 and to mature May 15, 2007 were accepted today (CUSIP: 9128272U5).

The interest rate on the notes will be 6 5/8%. The range of accepted bids and corresponding prices are as follows:

	Yield	Price
Low	6.716%	99.345
High	6.759%	99.037
Average	6.740%	99.173

Tenders at the high yield were allotted 50%.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$22,308,189	$12,000,603

The $12,001 million of accepted tenders includes $383 million of noncompetitive tenders and $11,618 million of competitive tenders from the public.

In addition, $200 million of tenders was awarded at the average price to Federal Reserve Banks as agents for foreign and international monetary authorities. An additional $1,750 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.

RR-1675

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED UNTIL 10 A.M. EDT
Text as Prepared for Delivery
May 8, 1997

TREASURY DEPUTY ASSISTANT SECRETARY
FOR TAX ANALYSIS JOHN KARL SCHOLZ
HOUSE COMMITTEE ON WAYS AND MEANS

I am pleased to have the opportunity to discuss the Administration's proposals to improve the earned income tax credit (EITC) and look forward to working with the Committee on this issue.

The Administration is strongly committed to the goals of the EITC and will oppose any proposals which reduce the EITC and raise taxes on millions of working families who play by the rules. The goals of the EITC are to make work pay and to lift workers out of poverty in the most efficient and administrable manner possible. With its message of "work pays," the EITC helps reduce dependency on welfare and increase reliance on jobs.

Economic Conditions Among Low-Wage Workers

To understand the role of the EITC, a couple of facts about the labor market for low-skilled workers in the United States are useful.

There has been a striking drop in real wages for unskilled workers, beginning in the 1970s and accelerating over the 1980s. Between 1979 and 1992, the earnings of full-time male workers who had not graduated from high school declined by more than 23 percent in real terms. Among full-time male workers with a high school diploma, real earnings fell by 17 percent over the same period.

This decline in the real wage for many unskilled workers has serious implications. In the United States, it is still possible for a family, containing a worker, to live in poverty. According to the Census Department, there were 2.4 million persons, over the age of 16, who lived in poverty and had worked year-round at full-time jobs in 1995.

RR-1676

Effectiveness of EITC in Making Work Pay and Reducing Poverty

The ETC makes work pay in two ways. Unlike many assistance programs for low-income families, the EITC is limited to working families. Moreover, the credit amount initially increases -- rather than decreases -- for each additional dollar of earnings. As a consequence, the EITC is different from many low-income assistance programs that are characterized by a reduction in benefits for each additional dollar of earnings. In my work prior to coming to Treasury, I -- together with Stacy Dickert-Conlin and Scott Houser -- examined the net impact of the OBRA 1993 expansion of the EITC on labor supply. We found that the EITC has a modest, positive effect on labor supply by encouraging individuals to enter the workforce. The EITC also directly increases the disposable income of working families. According to the most recent Census data, the EITC lifted 3.7 million persons out of poverty during 1995.

By making work pay, the EITC increases the probability that some parents may enter the workforce and perhaps leave the welfare rolls. The EITC, then, plays a key role in our efforts to reform welfare.

Administering the EITC through the Tax System

The EITC achieves the goals of making work pay and relieving poverty by reducing the tax liabilities of low and moderate-income families. Thus, it is improper to characterize the EITC, as some have done recently, as a "non-tax function" of the IRS. The EITC was created and expanded to offset the overall tax burden of low and moderate-income families and should not simply be measured as an offset to income and SECA taxes. About 85 percent of EITC costs will offset the combined Federal tax burden of families receiving the credit in 1998.

As these numbers suggest, EITC claimants are taxpayers. If the EITC did not exist, almost all EITC filers would still file an individual income tax return (in addition to paying payroll and excise taxes), and the IRS would still have to process their returns and verify much of the same information regarding their filing status, number of children, and income. In 1998, about 69 percent of EITC claimants will be required to file a tax return because they have an individual income tax liability (before the EITC), owe special taxes, have self-employment income in excess of $400, or their gross income will exceed the filing threshold. In addition, over 25 percent of EITC claimants will file a tax return in order to obtain a refund for overwithheld taxes paid throughout the year.

Because most EITC claimants would be filing a tax return even if the credit did not exist, the direct budgetary costs of administering the EITC are significantly lower than if the credit were provided through another means. The IRS cannot easily disentangle the costs of administering one line on the Form 1040 from other lines on the tax return, and we thus do not have estimates of the costs of administering this particular tax provision through the tax system. We can safely say, however, that the costs are lower than those associated with certain government expenditure programs. For example, in FY 1995, the food stamp program cost $3.7 billion to administer, while AFDC administrative costs were an additional $3.5 billion -- nearly 14 percent of the combined costs of these two programs. For these administrative costs, the

AFDC program served, on average, about 4.9 million families in a given month, while over 10 million households received food stamps. By way of comparison, the entire IRS budget in FY 1995 was $7.6 billion, and the IRS served over 116 million individual taxpayers and 15 million corporations.

Taxpayers also benefit from obtaining the EITC through the tax system. Many low-income workers learn about the EITC when they file a tax return to obtain a refund. By claiming the credit on tax returns, EITC claimants do not have to take time off from work to apply for the credit at a government office.

Not surprisingly, then, participation in the EITC tends to be higher than many other assistance programs targeted to low-income families. In my research prior to joining Treasury, I found that 80 to 86 percent of those eligible received the credit in 1990. This high participation rate is striking when compared to the AFDC participation rate of 62 to 72 percent and the food stamp participation rate of 54 to 66 percent. International comparisons also confirm this finding. The United Kingdom has an EITC-like program called the Family Credit. It is administered through the transfer system and directed toward families with children. Official estimates place the participation rate of the Family Credit at around 50 percent. Thus, both compared to cash and in-kind transfers in the United States and comparable work-related benefits in the United Kingdom, the EITC is much better at reaching those who are eligible for the credit.

Notwithstanding these benefits, there are costs associated with operating the EITC, as with other tax provisions, through the tax system. A system based largely on self-assessment will have lower administrative costs than a more bureaucratic approach, but it will also lead to higher noncompliance. Many of us were very concerned when EITC compliance data, from the 1980's, first became available. The Taxpayer Compliance Measurement Program (TCMP), last conducted in 1988, showed that 35.4 percent of the EITC claimed ($2 billion) exceeded the amounts to which taxpayers were eligible.

But the same TCMP also places the problems of the EITC in perspective. Last April, the IRS released a study, based on the 1988 TCMP, showing that the gross individual income tax gap in 1992 was between $93.2 and $95.2 billion. The IRS estimated that the total "true" individual income tax liability was between $550.2 and $552.3 billion for tax year 1992. Over 40 percent ($39.1 to $39.9 billion) of the gross tax gap for 1992 was attributable to the underreporting of business income (including self-employment income, partnership income and rents and royalties). About 20 percent ($18.1 to $18.7 billion) of the gross tax gap was due to the underreporting of non-business income. Over 14 percent ($13.5 to $13.8 billion) of the gross tax gap was due to persons who failed to file tax returns. These problems exceed any noncompliance problems associated with the EITC.

Nonetheless, the Administration and Congress have recognized that the EITC can best meets its goals -- of making work pay and lifting families out of poverty -- by ensuring that only those who are eligible and deserving receive the credit. Congress took a first step in this direction during the consideration of OBRA 1990, when data from the 1985 TCMP became available. The TCMP data suggested that EITC errors were linked to complicated and

unverifiable support and household maintenance tests. OBRA 1990 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 separate schedule to claim the EITC.

This Administration, with the support of Congress, has taken 17 additional legislative and administrative actions to further improve the targeting and operations of the credit. 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 Agreement 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 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. 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 supported provisions that would simplify the EITC, opposed provisions that 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 opposed, on administrative grounds, 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 also designed in a manner which could be administered by the IRS.

Analysis of EITC Compliance Study for Tax Year 1994

The combined effects of these efforts cannot be fully measured at this time, since several key steps did not take effect until the 1997 filing season and another step -- the requirement that all children, regardless of their age, have a social security number -- will not be fully implemented until the 1998 filing season. Today's hearing, nonetheless, has been called in response to the recent release of new IRS data on EITC noncompliance for tax year 1994.

The Criminal Investigation (CI) Division of the IRS conducted this study of compliance among 2,046 taxpayers who claimed the EITC on tax returns filed and accepted by the IRS between January 15 and April 21, 1995. CI Special Agents visited a random sample of EITC claimants, shortly after they filed their paper or electronic tax returns. Taxpayers (and often their employers, tax return preparers, family members, and neighbors) were interviewed at length and asked to produce verification that they met the EITC eligibility criteria. While the Special Agents made initial judgements about the legitimacy of the EITC claim, these judgements were reviewed -- and sometimes changed -- in subsequent review by Examination staff who had access to other sources of independent information (such as the Forms W-2 and 1099 sent by employers and other payers).

The study found that of the $17.2 billion claimed in EITC between January and April 1995, $4.4 billion, or 25.8 percent of total EITC claimed, exceeded the amount to which taxpayers were eligible. The overclaim rate among EITC claimants was slightly higher among paper filers (26.1 percent) than for electronic returns accepted by the IRS (25.3 percent). Noncompliance was found to be much higher among filers who claim EITC qualifying children than for those EITC claimants without qualifying children. Among those who claimed EITC qualifying children, the overclaim rate was 26.1 percent, while the overclaim rate was 15.7 percent for those who did not reside with a qualifying child. IRS enforcement practices, in place during the 1995 filing season, reduced the estimated net overclaim rate from 25.8 percent to 23.5 percent. If the IRS had been able to treat a taxpayer's failure to provide valid social security numbers for EITC qualifying children over the age of one as a mathematical error on 1994 tax returns, the net overclaim rate would have been reduced further, to an estimated 20.7 percent.

While EITC noncompliance remains at unacceptably high levels, the study's results do show significant improvement since the late 1980s, the last time that the IRS examined a comparable group of taxpayers as part of the TCMP. The improvement in EITC compliance since 1988 reflects the implementation of many, but not all, of the steps described earlier.

To better understand the remaining sources of noncompliance, we have conducted an analysis of the data. We have found that the most common EITC error is caused by taxpayers claiming qualifying children who do not reside with them for over half the year. Among taxpayers with children, such errors account for about 39 percent of overclaimed EITC amounts. Under current law, taxpayers are required to reside with their qualifying children for at least six months or a full year, depending on the relationship of the child. Taxpayers fail the residency test for many different types of reasons. For example, divorced parents who share the custody of their children might both claim the EITC because they both feel the child lived with them for

over half the year. At the other extreme, a taxpayer may claim a child with whom he or she has never resided.

A second common error is due to misreporting of filing status among married taxpayers. Filing status errors account for about 31 percent of overclaimed EITC amounts among taxpayers with children.[1] Sometimes, separated couples do not understand that they must still file as married persons if they have not yet obtained a legal separation. In other cases, married couples, who are still living together, do not file either a joint return or a "married filing separate" return.

The third most common error results from complicated living arrangements. In such situations, a child lives with more than one adult who appears qualified to claim him or her for EITC purposes. However, about 18 percent of overclaimed EITC amounts result when, in such households, the caregiver with the lower AGI claims the child. In some cases (although it is difficult to quantify), the other caregiver was, in fact, qualified to claim the EITC but did not. The study does not account for the offsetting errors which occur because the taxpayer's relative, with the higher AGI, did not claim the EITC when he or she was eligible.

Even among EITC claimants without qualifying children, many errors are caused by the misreporting of family structure. Among these taxpayers, about 40 percent of overclaims are attributable to the misreporting of filing status among married taxpayers. However, most errors among EITC claimants without qualifying children are due to the misreporting of income.

While we can identify the sources of EITC errors in this study, we do not know from the study the extent to which the EITC, itself, is the root cause of the noncompliance on the part of the taxpayers. By misreporting filing status, child dependents, and income, taxpayers may be able to reduce their tax liability through other provisions in addition to the EITC. Because this study focused only on EITC claimants, it does not isolate the effect of the EITC on noncompliance, or the extent to which higher income taxpayers are benefiting from misreporting their income or family circumstances.

The study does provide evidence that the refundable nature of the credit does not induce ineligible individuals to enter the tax system simply to claim the credit. As I have discussed, 95 percent of EITC claimants have a reason other than the EITC to file a return. The overclaim rate among those with a positive pre-EITC tax liability is nearly three times larger than the rate among those who did not have a tax liability. The data thus suggest that noncompliant EITC claimants do not enter the tax system merely to claim the credit.

While the results of this study are not fully applicable to the current EITC, the study does point to the need for new approaches. Many types of EITC errors are difficult to detect with the current IRS enforcement tools, such as matching of information reports and Social Security Administration records to tax returns. Our proposals are designed to provide the IRS with new

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[1] Some taxpayers misreport their filing status and also claim children who did not reside with them. They are included in both error categories.

tools to identify erroneous EITC claims while minimizing additional administrative costs to the Federal government.

Legislative and Administrative Proposals

The Treasury Department's eight-point plan contains six legislative proposals and two administrative actions. These proposals will help reduce EITC errors by increasing IRS's ability to detect errors before EITC refunds are paid out, by imposing new, more effective penalties on EITC claimants, and by reducing the risk of unintentional errors by law-abiding taxpayers.

Proposals to Improve the Flow of Information Prior to Release of EITC Claims

Due diligence requirements for preparers -- About half of earned income tax credit (EITC) claimants use a paid preparer to complete their income tax returns. As a consequence, tax preparers can play a key role in helping working families file accurate tax returns. While there is little significant difference among returns prepared by the taxpayer and those prepared by a paid preparer, the error rate does differ depending on the type of preparer consulted by the taxpayer. Noncompliance was much lower among taxpayers who went to a preparer who was either a certified public accountant, lawyer, enrolled agent, or a representative of one of the large nationally-recognized organizations. It was higher among those who sought other types of preparers.

Under our proposal, the responsibilities of paid preparers, with respect to potential EITC claimants, would be clarified. Preparers who do not fulfill certain due diligence requirements would be subject to cash penalties ranging from $50 to the full amount of an EITC overclaim. The proposed penalties would be in addition to the penalties imposed on preparers and taxpayers under current law. The proposal would be effective for taxable years beginning after December 31, 1997.

Recertification -- When questions arise about EITC claims, the IRS generally must follow deficiency procedures to determine the accuracy of the taxpayer's return. While deficiency procedures protect taxpayers' rights, they can be time-consuming and relatively expensive when compared to the amount of tax at issue.

Under the proposal, a taxpayer who has been denied the EITC as a result of deficiency procedures would be ineligible to claim the credit in subsequent years unless he or she provides evidence of his or her eligibility for the credit. To demonstrate current eligibility, the taxpayer would be required to meet evidentiary requirements established by the Secretary of the Treasury. Failure to provide this information when claiming the EITC would be treated as a mathematical or clerical error. If a taxpayer is recertified as eligible for the credit, he or she would not be required to provide this information in the future unless the IRS again denies the EITC as a result of a deficiency procedure. Ineligibility for the EITC under the proposal would be subject to review by the courts. The proposal would be effective for taxable years beginning after December 31, 1997.

Demonstration Projects -- The Treasury Department is seeking legislation permitting it to select four states to experiment with alternative ways of providing the EITC throughout the year. Under the proposal, the four states could provide advance payments of the EITC to wage earners through state agencies rather than employers for a three year period. States would be required to verify eligibility for the EITC before paying out the credit. Effects on advance payment participation and compliance would be studied by Treasury. Applications would be submitted by the states to the Treasury Department during 1998 for demonstration projects to begin in January, 1999.

Earmarking of IRS Resources -- Using information from the EITC compliance studies and other ongoing pilot projects, the IRS will continue to develop and use profiles of potentially erroneous EITC claimants. These profiles will be used to identify questionable EITC claims during the 1998 filing season. The IRS will expand the number of questionable EITC claims that it investigates during the 1998 filing season. Refunds associated with these claims will be delayed until the investigation is complete. Out of its current appropriations request, the IRS is earmarking 550 full time equivalent staff persons for this intensified effort during the 1998 filing season.

Increasing the Penalties for Intentional Noncompliance

New Penalties for Intentional and Fraudulent Errors -- Existing civil penalties have a limited deterrence effect against ineligible taxpayers repeatedly claiming the EITC. Denying subsequent eligibility to claim the EITC to taxpayers who have recklessly, intentionally, or fraudulently claimed the EITC in the past should help ensure that only those who are eligible for the credit receive it.

Under the proposal, any person who fraudulently claims the EITC would be ineligible to claim the EITC for a subsequent period of ten years. In addition, any person who erroneously claims the credit and such error is due to the reckless or intentional disregard of rules or regulations would be denied eligibility for the EITC for two subsequent years. The sanction under the proposal would be in addition to civil and criminal penalties imposed under current law. In addition, the sanction would be subject to review by the courts. The proposal would be effective for taxable years beginning after December 31, 1997.

Continuing Levy -- The IRS does not generally find it cost-effective to recoup overpayments of the earned income tax credit (EITC) or impose monetary penalties on noncompliant claimants. To some extent, these efforts are hindered by the exemption from levy of certain types of income prevalent among EITC claimants. By removing these exemptions, this proposal would make it more likely that the IRS would recapture overpayments.

In our FY 1998 budget, the Administration proposed that certain exemptions be partially lifted from the levy. Under the budget proposal, Federal workers' compensation payments, annuity or pension payments under the Railroad Retirement Act, and benefits under the Railroad Unemployment Insurance Act would no longer be fully exempted from levy. The proposal would change the exempt amount of Federal wages, salaries, and other income to a flat 85

percent exemption. The proposal would provide for "continuous" levy on non-means tested, recurring Federal payments.

Under the EITC initiative, unemployment benefits and means-tested public assistance would no longer be fully exempted from levy for any purpose. Up to 15 percent of these benefits would be subject to levy. The proposal would also provide for the option of a "continuous" levy on these payments. Treasury would work with affected Departments and state agencies to design the mechanisms appropriate for each program. If necessary, conforming changes would be made to the laws and regulations governing public assistance to ensure that there would not be offsetting changes in these benefits to compensate for the levy. The proposal would apply to levies issued after December 31, 1997.

As under current law, taxpayers would be allowed to apply for relief from a levy if they can demonstrate that they are suffering significant hardship as a consequence.

Reduce Unintentional Errors

Simplification of Foster Child Rule -- Under current law, a taxpayer is eligible to claim the earned income tax credit (EITC) if he or she resides with a son, daughter, or grandchild for over half the year. EITC qualifying children also include individuals who reside with taxpayers for a full year and for whom the taxpayers "care for as the taxpayers' own children." All EITC qualifying children (including foster children) must either be under the age of 19 (24 if a full-time student) or permanently and totally disabled.

The foster child" rule is confusing to both taxpayers and the IRS. Clarifying the definition would eliminate unintentional errors by taxpayers and provide better guidance to the IRS. In addition, the definition of a foster child for EITC purposes would be conformed to the dependency exemption definition proposed as part of the Administration's simplification package.

Under the proposal, a foster child would be defined as a child who (i) is under the age of 19 (24 if a full-time student), (ii) is cared for by the taxpayer as if he or she were the taxpayer's own child, and (iii) either is the taxpayer's niece, nephew, or sibling or was placed in the taxpayer's home by an agency of a state or one of its political subdivisions or a tax-exempt child placement agency licensed by a state. The proposal would be effective for taxable years beginning after December 31, 1997.

Improve Access to Taxpayer Assistance -- In 1996, 1.9 million low-income taxpayers receive assistance preparing their tax returns from over 47,000 volunteers in IRS-sponsored VITA (Volunteer Income Tax Assistance) facilities. The IRS provides training materials and tax forms to 8,300 sites. The IRS also provides software for electronic filing and lends computer hardware to selected sites. These VITA efforts will be continued and strengthened as part of the Administration's commitment to volunteerism. The Treasury Department is contacting businesses and tax professional organizations to make sure that they are aware of the need for VITA volunteers, computers, facility sites, and outreach assistance. By improving access to free

taxpayer assistance and electronic filing, these efforts will help reduce the risk of unintentional errors.

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This concludes my remarks. We look forward to working with you toward the enactment of these provisions. Thank you once again for providing me with the opportunity to testify. I would be pleased to answer any question that the Committee may have.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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The Role of the Ex-Im Bank and Treasury in Reducing Barriers to Trade
Lawrence H. Summers
Deputy Secretary of the Treasury
Ex-Im Bank Annual Conference
Washington, DC

Good morning. It is a pleasure to be here at the annual conference of the Ex-Im Bank.

As Secretary Daley indicated, the Ex-Im Bank is a vital part of this nation's trade strategy and is an important asset to the US economy.

When we think of the remarkable surge in exports we have seen, with exports rising 10% per year since 1993 so that the United States is again the largest exporter in the world, a large share of the credit must go to the Ex-Im bank.

In 1996, Ex-Im financed an estimated $14.6 billion in exports, supporting an estimated 200,000 jobs directly (and indirectly, a million more). Some 80% of these transactions benefited small business.

By leveling the playing field for US exporters, Ex-Im lies at the very core of our export strategy. This is a fact that the President recognized when he fought successfully for its continued authorization in the bi-partisan balanced budget agreement announced last week.

When we think of what Ex-Im does, we usually think of trade financing, in all its forms. However, there is another side to Ex-Im that is much less well understood, but equally important that I want to talk about today. The U.S. Government uses Ex-Im as its representative within the OECD to reduce subsidies by other countries of official export financing.

Agreements such as NAFTA and the Uruguay Round helped us reduce barriers in the form of tariffs and other trade restrictions. But financing subsidies can constitute equally high barriers to US exports. Reducing them helps US exporters while saving taxpayers money.

RR-1677

The Ex-Im Bank is our admission ticket to the OECD's Export Credit Arrangement where international rules for official export credit agencies are negotiated, monitored and enforced. And, there, Ex-Im is Treasury's partner in reducing foreign export financing subsidies.

This morning, I would like to focus on what we in Treasury have been doing in conjunction with Ex-Im to open markets for American firms by reducing these harmful subsidies.

Reducing Interest Rate Subsidies

Traditionally, foreign export credit agencies subsidized exporters by offering below market interest rates. The use of this tool by foreign governments put US exporters at a major disadvantage since we offered no such program. But matching the subsidies would have been expensive for the US Treasury and might well have bid up subsidies further.

As a result, the US took the matter to the OECD where we negotiated the elimination of interest rate subsidies. The agreement we won requires that export credit agencies uniformly charge a 100 basis point spread over government cost of funds (for a given loan duration). This reform has doubled the amount of US exports Ex-Im can support at any given level of appropriations compared to 10 years ago. The last installment of this phased agreement went into effect in 1996 and has saved Ex-Im about $200 million annually in required appropriations.

Reducing Tied Aid

In response to our action on this score, however, many countries began to increase their use of tied aid subsidies. As opposed to interest rate subsidies which apply across the board, tied aid consists of the use of grants or subsidized financing to sweeten specific export financing deals.

In most cases, the subsidies take the guise of aid money. And, in general, the battleground for this form of subsidy has been in the fastest growing Asian markets such as China, Indonesia, India, Thailand, the Philippines--markets where as you well know, the US cannot afford to lose.

Assessing the problem, the US government determined that it did not make sense to up the tied aid ante by creating our own subsidy program or to start an export subsidy race.

Instead, we pressed for OECD negotiations to set international rules.

In 1992, the US got new rules that barred OECD countries from giving tied aid to the richer developing counties such as Mexico, Korea, Malaysia and Argentina. And they prohibited tied aid for projects with sufficient cash flows to service commercial term debt -- i.e. projects that were commercially viable.

These rules which this Administration has implemented have a triggered a sea change in procurement policies. Over the last five years, the Treasury Department has led the OECD in reviewing over 100 projects. In about sixty cases, we determined that the projects were not eligible for tied aid because they were commercially viable. This created a sufficient body of case law to permit the issuance of OECD Guidelines that now clarify which projects are eligible for tied aid and which are not.

The result of this agreement is that foreign tied aid offers for major capital goods projects dropped from about $8 billion per year prior to the agreement to $2 billion afterwards.

The immediate U.S. share of this newly open capital goods market is about $1 billion annually. But with US technology and, in some cases, standards in place, follow-on sales should provide even higher export gains over time.

While this agreement has largely eliminated unfair tied aid, we have also created the Ex-Im Tied Aid Capital Projects Fund to match tied aid offers for certain key projects that are not commercially viable.

Limiting tied aid is good for American exporters. It is also good for the global economy. By stopping aid financing from crowding out commercial financing, it helps direct scarce aid resources to the poorer countries, not the richer countries that can afford commercial financing.

And it has done all that while saving American taxpayers the $300-$500 million in annual appropriations that matching our competitors' subsidies would have cost.

Other Initiatives

Building on these initiatives, we are now in the process of negotiating OECD rules to restrict export subsidies further by requiring export credit agencies to charge appropriate risk, or exposure, fees. By agreeing on one international system for setting risk premia, we can further level the playing field for American exporters. This could save Ex-Im around $50 million annually in required appropriations.

Looking further out on the horizon, we are also exploring ways to maximize the ability of US exporters to benefit from untied aid programs. Some countries offer aid without explicit ties. Our goal is to ensure that these competitions are fair and transparent.

We have already negotiated an agreement within the OECD whereby Japan and Germany now provide notification of untied aid they are granting for projects in developing countries. This information is now published regularly on the Department of Commerce's home page on the World Wide Web where it can be accessed by US firms seeking overseas business.

Conclusion

In conclusion, Ex-Im does more than just provide financing to US exporters. Through its seat at the table at the OECD Export Credit Arrangement, it has enabled the US government to eliminate a number of unfair export subsidies, reducing barriers to US exports.

Eliminating these barriers to trade has received less publicity than NAFTA, the Uruguay Round, the Financial Framework with Japan and the 200 some other trade agreements this Administration has negotiated. But they are another vital way that the Ex-Im Bank helps boost exports and creates more high paying export jobs for the American people.

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For Immediate Release

Address by the Honorable David A. Lipton
Assistant Secretary of the Treasury for International Affairs
before the IFC Participants Meeting
May 6, 1997

Thank you. I am very pleased to join you here tonight and to extend the tradition of Treasury Department officials addressing the IFC's participants meeting group.

The agenda for your meetings tomorrow reveals the broad scope of the IFC's activities --from project financing in Russia to privatization of a major utility in the Philippines to new financial products for emerging markets. That variety shows that the IFC is responding to our rapidly changing global economy, and in particular the dramatic evolution in the frontiers of economic development.

As we near the turn of the century, we see the real prospect of markets taking hold in all corners of the globe and of a growing web of trade and finance linking our economies together. To ensure that those remarkable changes lead to growth and prosperity, we must seize the opportunity that history is giving us. We must encourage transition and developing countries to build the institutions of modern market economies, to manage their economies sensibly, and to open their economies to trade in goods and financial services. And, we must mobilize the might of our private sectors to spread the capital, technology and know how that will bring rising living standards and sustain the politics of reform.

The international financial institutions, especially the IFC, have an important role to play in that process. Today, the IFC is financially strong and has mapped out a sound medium-term business plan. As the frontiers of the global capital market extend, and the role of the private sector expands, the IFC must explore those frontiers for opportunities to promote private sector activity. That means further decreasing its presence in markets and sectors that have earned substantial access to private capital and devoting increased resources to new markets bringing new value-added both for clients and co-financiers. At the same time, it means continuing to look for innovative mechanisms to meet the new demands of a changing environment and client base --such as expanding its work in guarantees and moving towards a more active and outward-looking field presence.

RR-1678

Aggressive innovation and creative solutions are needed for the IFC to be a pioneer in promoting capitalism on into the 21st century.

Regional Challenges and Priorities

Let me review regional developments that represent the challenges we face in promoting development and that describe the challenging environment facing the IFC.

Latin America, with its impressive economic and political advances in recent years, is pointed down the road to self-sustaining private sector-driven growth. As a result, private capital has flowed into the region at a record pace --more than $75 billion last year. Latin America's needs remain great: to promote savings, to build capital market infrastructure and strong financial institutions to channel savings to good uses, and to construct physical infrastructure estimated at more than $60 billion per year.

The economies in transition face a complex and varied reform agenda. Poland, the Czech Republic, and Hungary have transformed their economies through stabilization, liberalization, and privatization; and they have an impressive track record of growth to show for it. Now they face structural and sectoral reform challenges --using market-oriented incentives to promote efficiency and growth throughout the economy.

In contrast, parts of Southeast Europe demonstrate the high cost of delayed or reversed reform. Fortunately, Bulgaria and Romania are now poised to restart the stabilization phase of reforms while moving ahead on the structural reforms essential for an early restoration of confidence and growth.

Russia lost time last year, preoccupied with politics and cardiology. But its new economic dream team has the right agenda and has the resolve. They understand their goal is to improve the country's investment climate. And they understand that they have a limited window of opportunity to act and produce results for a public weary of economic hardship.

In the Middle East and North Africa, with its history of state-domination of economic affairs, we are seeing some countries make or consider fundamental shifts in course. In some countries, we are already seeing more rapid growth, sustainable macroeconomic balances, capital market development, and increased private investor interest. The demonstration effect has helped make reform spread and become self-sustaining. There has been much emphasis placed on the positive role that progress on the peace process can play in promoting economic progress. I firmly believe that the causality also works the other way.

Sub-Saharan Africa remains a special challenge and in many respects is the last great development challenge. Despite the best efforts of the development community, including institutions and many

outstanding individuals, much of Sub-Saharan Africa has not participated very fully in global trends toward economic integration and thus has not seen its share of growth and technological advancement over the past several decades.
At the same time, democratization and economic reform are taking hold in a surprising number of countries. Elections in more than 20 countries show that democracy can take root in Sub-Saharan Africa. Economic reforms in 15 to 20 countries have led to sustained growth after years of stagnation or even negative growth. Some countries are experiencing growth rates, at least for now, that compare favorably with those of fast-growing developing countries in Latin America and South-East Asia. Senegal, Ghana, and Cote d'Ivoire, for example, are growing in the 5 to 6% range. Uganda grew by 10 percent in 1995 and Ethiopia by an estimated 12.5% in the last year.

This diverse picture shows that, while Africa is a challenge for investors and for the IFC, there are real and growing business opportunities. Similarly for development institutions and donor countries, there is a rare, perhaps historic opportunity: To respond to positive developments in Africa with an extra measure of support for those countries that are doing the most to help themselves. With this in mind, the Clinton Administration has recently proposed to Congress a Partnership for Economic Growth and Opportunity in Africa. The Partnership includes a number of initiatives to support countries taking bold steps to open their economies to trade and investment, to improve the quality of governance, and generally to create an environment that is conducive to rapid, private sector-led growth. We will be discussing these initiatives with countries participating in the Denver Summit, where we expect Africa to be an important item on the agenda. We will continue to work closely with the World Bank Group, the IMF, the African Development Bank, the private sector, and of course African governments to do all we can to make this new Partnership a success.

New Instruments for Collaboration with the Private Sector

Whatever the particular region, the bottom line for us is that the World Bank Group needs to make the fullest possible use of available instruments to deepen its collaboration with the international private lenders who will drive development in the decade ahead. Partial risk and partial credit guarantees by the World Bank Group are one such instrument whose potential has not yet been fully tapped. We are encouraging the IFC to explore how its own activities in this area might be expanded in cooperation with the rest of the World Bank Group.

In this light, MIGA has been operating very successfully in recent years, and international private investor demand for MIGA's services is growing rapidly. As we indicated at the recent Development Committee meeting, the U.S. Treasury recognizes that MIGA will need additions to its capital base to function effectively in the early years of the next century. In the meantime, however, MIGA's liquidity and use of its existing capital base could be expanded through a substantial near-term transfer of net income from the World Bank.

Financial Service Negotiations

There are other areas where we are working to advance the collaboration of the public and private sectors in the service of economic development. For example, all of us stand to gain enormously from a successful conclusion to the WTO negotiations on trade in financial services. Our goal of a comprehensive Most Favored Nation-based agreement that provides substantially full market access and national treatment to foreign financial services providers is an ambitious but worthy one. Foreign firms should be able to establish and operate in the form of their own choosing, including branches. Full majority ownership is crucial to firms' effective management. It goes without saying that this will require a higher standard of liberalization than has been offered to date, particularly by a number of developing nations.

Shared Priorities and Shared Interests

Ladies and Gentlemen, the case for active U.S. engagement in the global financial system and the global financial institutions we helped create seems to us more compelling than ever. The rewards of engagement have never been higher, nor the risks of disengagement clearer. In a changed world, where military and ideological confrontation have given way to economic globalization and burgeoning trade flows, our prosperity depends more than ever on stable and growing economies in the developing world. What is more, the end of the Cold War has meant that regional conflicts, often rooted in poverty and societal collapse, are increasingly the main threats to our security interests. In both areas, we and our G-7 partners recognize that the international institutions are critical instruments for promoting our shared interests and values.

Yet as you well know, there are many who do not share this view and the evidence of their skepticism can easily be seen. Closest to home for this institution has been the enormous difficulty we have faced in our efforts to secure adequate Congressional support for the multilateral financial institutions, especially the soft loan windows in the multilateral banks.

The Clinton Administration's view is straightforward. We fully appreciate the importance of sound, adequately funded international financial institutions for the entire global economy and for our long-term national interests. We are fully dedicated to obtaining the funding we have requested and to meeting the commitments we made in good faith. Our shared interests are at stake: yours as the increasingly central players in the development challenge and ours as the central player in a post Cold War world striving for shared prosperity, security and human dignity. I'm confident that, working together, we will succeed.

AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
May 12, 1997

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for $7,574 million of 13-week bills to be issued May 15, 1997 and to mature August 14, 1997 were accepted today (CUSIP: 9127945J9).

RANGE OF ACCEPTED
COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	5.07%	5.21%	98.718
High	5.08%	5.22%	98.716
Average	5.08%	5.22%	98.716

Tenders at the high discount rate were allotted 30%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$41,174,890	$7,573,743
Type		
Competitive	$39,237,939	$5,636,792
Noncompetitive	1,427,551	1,427,551
Subtotal, Public	$40,665,490	$7,064,343
Foreign Official Institutions	509,400	509,400
TOTALS	$41,174,890	$7,573,743

In addition, $3,680,485 thousand was awarded to the Federal Reserve Banks for their own accounts.

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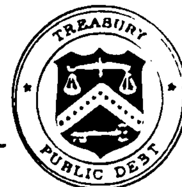
AUCTION RESULTS

PUBLIC DEBT NEWS



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

FOR IMMEDIATE RELEASE
May 12, 1997

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for $7,595 million of 26-week bills to be issued May 15, 1997 and to mature November 13, 1997 were accepted today (CUSIP: 9127942W3).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	5.28%	5.50%	97.331
High	5.31%	5.53%	97.316
Average	5.30%	5.52%	97.321

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	$37,206,712	$7,594,912
Type		
Competitive	$33,335,700	$3,723,900
Noncompetitive	1,141,012	1,141,012
Subtotal, Public	$34,476,712	$4,864,912
Foreign Official Institutions	2,730,000	2,730,000
TOTALS	$37,206,712	$7,594,912

In addition, $3,465,000 thousand was awarded to the Federal Reserve Banks for their own accounts.

5.29 -- 97.326

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TREASURY NEWS

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EMBARGOED UNTIL 9:30 A.M. EDT
Text as Prepared for Delivery
May 14, 1997

TREASURY UNDER SECRETARY FOR ENFORCEMENT
RAYMOND W. KELLY
SENATE CAUCUS ON INTERNATIONAL NARCOTICS CONTROL

I appreciate the opportunity to appear before the Caucus to address this important issue. Public corruption is always a serious matter, especially in law enforcement, where its presence can undermine the foundation of our society and its institutions, the very concept of the Rule of Law.

Today, the possibility of corruption in the area of drug law enforcement is substantial. The enormous sums of money being generated by drug trafficking have added a new dimension to the threat and the potential for bribery is great. Drug traffickers do not abide by rules and are willing to try anything that helps them get the drugs across the border, including the offer of large amounts of money. It is a challenge which the Customs Service, and the other law enforcement agencies here before you, must overcome at the border on daily basis. Every vehicle which is stopped, every cargo shipment which is inspected, carries the inherent potential for corruption, the lure of easy wealth.

At Treasury, we want our law enforcement personnel to adhere to the highest standards of integrity and professionalism. Given the unique and far-reaching powers which law enforcement officers possess, this is not only understandable, but essential. These standards are reflected in our personnel recruitment efforts, which strive to attract the most highly qualified -- and motivated -- individuals to be our law enforcement officers. They are also part of the training regimen which all officers receive, both at the academy and in-service, including an emphasis on integrity and standards of conduct. And we are always looking for ways to improve both our recruitment efforts and our training.

Treasury is working with a consultant on a Congressionally mandated review of the personnel procedures and practices for Criminal Investigators within the Treasury bureaus. This review covers a wide spectrum of personnel questions, including hiring authorities and the use of

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probationary periods. It is our hope that this exercise will indicate ways in which we can update and improve our personnel procedures to ensure the highest quality recruitment in the years to come.

Unfortunately, proactive measures such as these cannot, by themselves, provide certainty in an imperfect world. Despite the best efforts to create an environment of honesty and integrity, there is always the possibility that an individual officer may prove to be vulnerable to the lure of bribery. It is a credit to the men and women of Federal law enforcement agencies that the instances of corruption which have been identified have been isolated incidents, involving a small percentage of our personnel. But this does not lessen the danger which they pose: even one corrupt law enforcement officer poses a threat not only to the general public but to his or her fellow officers as well. If left unchallenged, corruption can undermine an entire organization and the morale of its officers. To meet this threat, we must identify and remove corrupt individuals quickly and effectively.

The Office of Internal Affairs at Customs faces a truly difficult task, and to be effective it requires the active support of the organization's management, from the top down. They need to be staffed by the best people, and they must have adequate resources to be effective. In order to demonstrate management's support, Customs considers service in the Internal Affairs Office as a factor for promotional opportunities. This is not an automatic rung on the advancement ladder, but it is a means to attract the best personnel to service in Internal Affairs. It also assures that the office is staffed by experienced law enforcement officers rather than new recruits and helps to lessen a common situation in law enforcement organizations: the isolation of its internal affairs office from the operational elements it monitors.

With respect to Customs in particular, we have recently taken two important steps. First, we have hired an individual to conduct an objective assessment of the Internal Affairs Offices of the Treasury Enforcement Bureaus, beginning with the Customs Service. Like most organizations, this function needs to be reassessed periodically in light of both current circumstances and projected developments, in order to anticipate changes in the nature of the threat. Internal Affairs Offices cannot remain stagnant and wait for a scandal to erupt. Times change, techniques change, the threat changes, and we need to step back periodically and re-examine our integrity systems and programs. We need to plan ahead.

This assessment is being conducted by an individual who previously served as Deputy Commissioner for Internal Affairs of the New York City Police Department. A former federal prosecutor, he undertook a far-reaching reorganization of the NYPD Internal Affairs at my behest when I was Police Commissioner. The assessment is intended to evaluate the scope of the integrity problem and the issues involved. It will examine whether we have adequate resources to get the job done, whether it is vehicles, surveillance equipment, or staffing levels. It will also review internal affairs procedures, such as the system for managing investigative cases.

Although the assessment is not yet complete, I am confident that it will provide us with a

road map of where we are and where we need to go from here. In the meantime, Treasury Enforcement and Customs are working together on a new Anti-Corruption Action Plan. This joint initiative is intended to improve significantly the Internal Affairs Office's ability to actively seek out, identify, and prosecute corrupt Customs employees. It will also address actions which can be taken to prevent corruption from developing in the first place. We are in the process of calculating the cost of the plan and identifying sources of funding. We intend to implement this plan as quickly as possible, and make further modifications as necessary once the assessment is completed. Commissioner Weise and I have worked in a collaborative manner to develop this plan and I know he shares my commitment to its success.

The second step we have taken is the establishment of an Office of Professional Responsibility (OPR) within the Office of Enforcement. As you may know, Treasury's Office of Enforcement has received funding and support from Congress to increase its staffing. In our staffing plan, we have included positions which will provide enhanced oversight in the area of integrity and internal affairs issues for our enforcement bureaus.
This increase is intended to improve the ability of my office to maintain oversight of Treasury's enforcement bureaus and offices. Effective oversight is critical to the long-term functioning of internal policing efforts.

This new office will provide for increased review and oversight of internal affairs and enforcement operations within the bureaus; oversee and evaluate the management practices of the bureaus, including recruitment, hiring and promotion; and ensure that necessary institutional or management changes are made following any review or investigation that it conducts or is conducted by the Office of the Inspector General.

I would like to emphasize that this office is meant to assist in the oversight and management of the bureaus and is not intended to replace any other governmental agency or office whose jurisdiction includes investigations into the actions of the Bureaus, nor will it infringe upon the responsibilities or duties of Treasury's Office of the Inspector General.

I believe that, taken together, these actions will allow us to attack the threat of corruption head on. But it is only a beginning. We know that we will have to maintain a consistently high level of effort over the long term to be effective. The overwhelming majority of our law enforcement officers are honest, dedicated officers like Nicolas Lira and Roberto Labrada Jr., the two Customs Inspectors who were critically wounded by a smuggler last month at Calexico. They, as much as anyone in this room, expect us to maintain the highest possible standards of conduct.

Again, I would like to thank you for the opportunity to discuss this vital issue and I would be happy to answer any questions you might 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

EMBARGOED UNTIL 2:30 P.M.
May 13, 1997

CONTACT: Office of Financing
202/219-3350

TREASURY'S WEEKLY BILL OFFERING

The Treasury will auction two series of Treasury bills totaling approximately $15,000 million, to be issued May 22, 1997. This offering will result in a paydown for the Treasury of about $5,425 million, as the maturing publicly-held weekly bills are outstanding in the amount of $20,416 million.

In addition to the public holdings, Federal Reserve Banks for their own accounts hold $6,944 million of the maturing bills, 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 $3,273 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-1682

HIGHLIGHTS OF TREASURY OFFERINGS OF WEEKLY BILLS TO BE ISSUED MAY 22, 1997

May 13, 1997

Offering Amount	$7,500 million	$7,500 million
Description of Offering:		
Term and type of security	91-day bill	182-day bill
CUSIP number	912794 2T 0	912794 5U 4
Auction date	May 19, 1997	May 19, 1997
Issue date	May 22, 1997	May 22, 1997
Maturity date	August 21, 1997	November 20, 1997
Original issue date	August 22, 1996	May 22, 1997
Currently outstanding	$33,943 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 Daylight Saving time on auction day

Competitive tenders . . . . Prior to 1:00 p.m. Eastern Daylight Saving 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
May 14, 1997

Contact: Beth Weaver
(202) 622-2960

TREASURY UNDER SECRETARY KELLY TO HOLD BRIEFING ON NEW REQUIREMENTS FOR ALIENS PURCHASING FIREARMS

Treasury Under Secretary for Enforcement Raymond W. Kelly will hold a media briefing and photo opportunity tomorrow, Thursday, May 15 at 10:30 a.m. on the recent changes to the firearms transaction record (ATF form 4473). The press briefing will take place at the Department of the Treasury in Room 3311.

The changes reflect President Clinton's directive to Secretary Rubin on March 5, 1997, calling for a tightening of restrictions for aliens purchasing firearms. The new regulations require a purchaser to state whether or not he or she is a U.S. citizen, whether he or she has been a resident of the state for 90 days and to provide additional proof of residency through utility bills or other documentary evidence. The regulations also require alien purchasers to provide photo identification for all firearms purchases.

The revised firearms transaction records will be distributed to the more than 112,000 Federal firearms licensees.

Press without White House, Treasury, State, Defense or Congressional credentials must call the Office of Public Affairs at (202) 622-2960 by May 15, 9 am with the following information: full name, social security number and date of birth.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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TREASURY ASSISTANT SECRETARY (ENFORCEMENT)
JAMES E. JOHNSON
HOUSE COMMITTEE ON BANKING AND
FINANCIAL SERVICES

Thank you for providing me with the opportunity to be here to discuss money laundering on the southwest border. Seated here with me is Stanley Morris, Director of the Treasury Department's Financial Crimes Enforcement Network or "FinCEN." I also would like to introduce Edward Federico, Jr., Deputy Assistant Commissioner of the Internal Revenue Service Criminal Investigation Division. Deputy Assistant Commissioner Federico's testimony has been submitted for the record. The three of us will be happy to answer any questions you may have at the conclusion of opening statements.

I would like to begin by touching briefly upon the highlights of the IRS-CI study of the cash surplus in the San Antonio Federal Reserve district. I will leave it to Director Morris and Deputy Assistant Commissioner Frederico to discuss the study in more detail. Then I would like to speak briefly about the implications of the study for Treasury's anti-money laundering program. Finally, I would like to address recent developments in Mexican anti-money laundering capabilities and the effect these developments should have on our joint efforts.

On October 21, 1996, Congressman Gonzalez requested that IRS-CI determine the sources of a $2.9 billion bank surplus at the San Antonio Branch of the Federal Reserve Bank for 1995. In response to the Congressman's request, IRS-CI developed an analytical plan which reflected its institutional expertise. As you know, the special agents of the IRS-CI are highly skilled in investigating sophisticated crimes such as criminal tax violations and money laundering. They are not trained as economists or bankers. The analysis of the cash surplus was performed by IRS special agents employing the mind set and techniques of financial investigators -- in this case investigators familiar with the San Antonio, Texas, and southwest border areas.

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Numerous government and business sources were interviewed in furtherance of the analysis. Information was received from FinCEN, the San Antonio Federal Reserve, the Commerce Department, the Office of the Controller of the Currency, the Customs Service, the U.S. Attorney's Office for the Middle District of Texas, the IRS Detroit Data Computing Center, and the Texas Comptroller's Office. Business sources interviewed include south Texas banks serviced by the San Antonio Federal Reserve, the Texas Banker's Association, discussions with Mexican bankers, and Internet business sources.

The most significant findings of the study were as follows. First, the existence of the cash surplus, in and of itself, does not indicate drug-related money laundering. The San Antonio Federal Reserve District has run a surplus every year since at least 1951 -- arguably more than fifteen years before drug trafficking emerged as the significant economic activity that it is today in Mexico, and certainly more than thirty years before money laundering was a crime in this or in any other country in the world.

In 1995, 32% of the Federal Reserve Bank regional districts had surpluses and 68% had deficits. Notably, of the five major designated High Intensity Drug Trafficking Areas, Los Angeles and Miami had currency surpluses. New York, Chicago and Houston, clearly among the nation's most significant money laundering centers, have currency deficits.

The second finding of the IRS-CI study is that Mexican banks have increased their currency shipments to South Texas banks. An analysis of 1995 Bank Secrecy Act data indicates that banks in the San Antonio Fed district filed Currency Transaction Reports reflecting currency deposits of approximately $ 8.8 billion. Of that amount, at least $ 2.05 billion -- almost 25 percent -- was received from Mexico. Approximately $ 1.68 billion of that $ 2.05 billion, moreover, represents transfers of bulk currency from Mexican banks to U.S. banks.

Third, the IRS-CI study determined that one of the most significant impact on the cash flow in the San Antonio Fed was an affirmative campaign by south Texas banks in 1993 and 1994 to solicit currency shipments from Mexican financial institutions. Prior to 1993, U.S. currency was sent by Mexican banks to various large money center banks located mainly in the New York Federal Reserve district and, to a lesser extent, south Florida. The south Texas banks embarked on this campaign, which incidently received the cooperation of the San Antonio Fed, to expand business opportunities with Mexican banks.

Fourth, the study also noted that tourism and retail sales can affect the cash levels in the San Antonio Fed as well. Department of Commerce statistics show tourism in Bexar County, Texas, where San Antonio is located, was $2.1 billion in 1995. IRS-CI could not establish how much of these tourist dollars were expended in the San Antonio Federal Reserve area, however. The study also revealed that expenditures by Mexican shoppers during the months of Mexican holidays cause minor increases in the cash activity of the border banks. These spending trends have been decreasing since 1995 due to the opening of U.S. retail businesses in Mexico. The dollars once spent at these retail establishments in the U.S. are now being spent in the Mexican branches of U.S. retailers

Fifth, the IRS-CI study revealed that the North Atlantic Free Trade Agreement or "NAFTA" has had little or no impact on cash activity. This is so because businesses in both Mexico and the U.S. are using established banking methods, many of which do not involve actual transfers of currency, to make and receive payments.

Finally, the IRS-CI hypothesized, based on its investigative experience along the south west border and that of other Treasury bureaus, that some portion of the currency in Mexican banks that is being repatriated to the San Antonio Federal Reserve district was at one time in the hands of narcotics traffickers. Unfortunately, no information was available to the U.S. banks or to law enforcement about source of the funds already placed in Mexican financial institutions to determine its legality or illegality. Just as in the U.S., the placement of physical currency into the financial system erodes the direct link to its criminal origins. Again, the mere existence of a currency surplus does not supply the necessary information.

These were the principal conclusions of the study. At this point, I would like to explore some of its broader implications. What does it tell us about our own efforts to combat money laundering? We know that a significant amount of money is being shipped in bulk from Mexican banks to U.S. banks. And it is only logical to assume that some portion of that money is drug proceeds smuggled out of the U.S. But what does this say about our efforts to stop drug-stained cash at the borders?

Is the Customs Service doing enough to stop the flow smuggled cash out of the country? The answer is that Customs is doing everything it can given the resource constraints and the mission priorities which govern its efforts. Customs' number one priority -- without question -- is inbound drug interdiction. The bulk of our resources and efforts are directed at stopping the flow of drugs into this country. And the results have been impressive. Last year, narcotics seizures at the southwest border increased 29 percent by total number of incidents, and 24 percent by total weight, as compared to 1995 totals. This translates into 6,956 seizures, and 545,922 pounds of marijuana, 33,308 pounds of cocaine, and 459 pounds of heroin. The total weight of narcotics seized in commercial cargo on the U.S.-Mexican border increased 153 percent over 1995 totals.

That is not to say that outbound cash smuggling is not a priority. To the contrary, Customs employs a variety of techniques to identify and inspect vehicles for cash smuggling, employing both intelligence and profiling, and random inspection. If there is *any* reason to believe that a carrier is smuggling cash, that carrier will be inspected. In addition, a certain percentage of trucks that are not suspect are examined anyway on a random basis, just as a precaution. Last year, Customs seized $ 3 million in outbound cash being smuggled to Mexico through southwest border ports of entry.

Still, the sheer volume of currency flowing between the U.S. and Mexico demands that we do more with what we have to address the problem of outbound smuggling. We must use our resources more creatively, employing greater use of intelligence to effectively target suspect vehicles and shipments. The results which can be achieved by intelligence-driven interdiction are demonstrated by the recent seizure of $ 5.6 million at the Nogales port of entry.

We also must explore innovative uses of our regulatory authority to heighten the prospect of seizing cash at the border. The recently employed Geographic Targeting Order or "GTO" -- which established special Bank Secrecy Act reporting requirements for certain money remitter businesses sending cash to Colombia -- is an excellent example of this kind of approach. The GTO's heightened reporting requirements forced drug traffickers to resort to currency smuggling to move their funds. This in turn stimulated a marked increase in interdiction and seizure activity at the borders -- over $50 million since the GTO went into effect. This figure is approximately four times higher than it has been in prior years. Armed with the experience and insight the GTO has brought us, we will continue to look for approaches to marshal existing resources to enhance outbound interdiction.

A second question that the IRS-CI study raises is whether the reporting and record keeping requirements of the Bank Secrecy Act are working to keep criminal proceeds out of U.S. financial institutions. The answer, without question, is yes. Twenty years ago, drug dealers or their associates could simply walk into any bank in this country and deposit satchels of cash, with little fear of detection. Today, through aggressive enforcement of the Bank Secrecy Act regulations, America's banks have virtually been closed as avenues for the wholesale placement of criminal proceeds. Indeed, much of the credit for tightening the BSA enforcement regime should be handed to this Committee, which has been responsible for pushing through a number of important amendments to close loopholes and to expand the scope of the regulations. Today, the U.S. system of anti-money laundering regulation is among the most stringent and effective in the world.

Unfortunately, we are in sense victims of our own success. As free access to U.S. banks for initial cash placement has been denied, the criminals have been forced to seek other paths to launder their funds. Thus, banks in other countries, where controls are less stringent or non-existent, have become prominent destinations for initial cash placement. Mexico is among these countries. The absence of BSA-like customer identification, currency transaction reporting and suspicious transaction reporting requirements had made Mexican financial institutions a target for exploitation by money launderers.

The relationship between Mexican banks and their U.S. counterparts highlights the limitations of the U.S. regulatory efforts to prevent and detect money laundering. While the BSA may be extremely effective at preventing and detecting initial cash placement, and even subsequent layering transactions, it can do little to prevent the introduction of funds from other nations which have the appearance of legitimacy. Once illicit proceeds have been placed with a financial institution in a foreign country, and its criminal origins obscured through intervening transactions or commingling, U.S. financial institutions and law enforcement authorities are hard pressed to identify the funds as suspect when they arrive in the U.S.

To effectively counter the problem, we must rely to a certain extent on the existence of effective controls in the country of origin to prevent and detect the placement of criminal proceeds. Without these controls, we encounter the same kind difficulties identifying the source of funds which, as the IRS-CI study demonstrated, prevails in the case of bank to bank transfers

from Mexico. More generally, without effective cooperation from law enforcement authorities and financial institutions in the countries of origin, our ability to address foreign-born money laundering is hampered significantly.

Recognizing that effective money laundering controls in the U.S. is but one part of the equation, the Treasury Department, along with the Departments of Justice, State and the Office of National Drug Control Policy, have been working with the Government of Mexico to enhance its own capacity to combat the problem. This work has produced some significant results which, over time, should provide additional answers to the questions that the IRS-CI study raise. I would like to take a few moments to review some of these results.

On April 29, 1996, the Mexican legislature added Article 400 Bis to the Criminal Code, establishing for the first time a criminal offense for money laundering. The new law replaces an earlier Fiscal Code offense, providing a wide range of predicates and enhanced penalties. It also applies equally to employees and officers of financial institutions that wilfully assist or cooperate with a third party in furtherance of a money laundering scheme. We regard this latter provision as an important "stick" to compel integrity among financial institution employees. Further, discussions with prosecutors from the Mexican Attorney General's Office suggest that the applicable scienter requirement under the new law embraces "willful blindness." U.S. experience has demonstrated that this standard is an important tool to compel vigilance among financial professionals and others who act as facilitators in the laundering process but who lack a direct nexus to the underlying criminal activity.

In addition to its new money laundering law, on Monday, March 10, 1997, the Mexican Treasury, or "Hacienda," issued new regulations designed to insulate financial institutions from money laundering. Hacienda undertook to adopt regulations of this sort in May 1996, after much encouragement by the Treasury Department. This marked a significant departure from earlier positions the Government of Mexico had taken on the subject.

Treasury, Justice and State have been working closely with Hacienda to develop the new rules. In June and July 1996, respectively, Treasury led interagency missions to Mexico City for the purpose of assessing the Government of Mexico's existing anti-money laundering capabilities, and suggesting improvements to be built into the new rules. Among other things, the missions resulted in the design by FinCEN of a financial intelligence unit to house and analyze the information generated by Hacienda's reporting regulations. The State Department has purchased the necessary hardware and software for Hacienda. Two weeks ago, I attended the inauguration of the new unit while in Mexico City on other business. Save for some minor adjustments, the equipment has been installed and is ready for deployment. As Director Morris will tell you, FinCEN recently dispatched a computer expert to perform initial training to Hacienda analysts in the operation of the unit.

The Departments of Treasury and Justice have been engaged in an analysis of the new regulations. The rules include a number of features which US experts regard as essential to the establishment of effective anti-money laundering controls. These include: requirements to obtain, and to retain for a period of five years, identifying information on customers establishing

account relationships or engaging in other financial transactions; mandatory reporting of currency transactions in excess of $ 10,000; and mandatory reporting of suspicious transactions. The rules also include: a safe harbor from liability for financial institution employees who file suspicious transaction reports; a no "tip off" provision, prohibiting disclosure by financial institutions and their employees of the fact that a suspicious transaction report has been filed; a requirement for anti-money laundering training programs to be developed and implemented by covered financial institutions; and civil penalties for "any violation, partial or untimely compliance" with customer identification provisions" or for any violation or partial or timely compliance, or omission to file a report."

While more certainly can be done, we regard the adoption of these regulations as a salutary development. This is particularly so given that, one year ago, Mexico had no rules governing the placement of criminal proceeds with financial institutions. In addition, the scope of the rules is quite broad, providing coverage of a range of non-bank financial institutions including registered casas de cambio. Further, a number of the features which have been included in the Mexican regulations took the U.S. many years to adopt.

If effectively implemented, these rules will help erect the kind of barriers that will prevent the placement of drug profits and other criminally derived funds with Mexican financial institutions. In addition, the rules should provide Mexican law enforcement authorities with a paper trail on the source of funds deposited in Mexican financial institutions that heretofore was difficult or impossible to obtain. U.S. authorities should have access to this information pursuant to the Financial Information Exchange Agreement in place between Treasury and Hacienda.

To assist the Government of Mexico in implementing its new money laundering law and regulations, Treasury, with the support of the State Department, has been sponsoring investigative and analytical training. In the fall of 1996, the IRS-CI and FinCEN conducted seminars for Hacienda analysts and investigators in suspicious activity report processing and analysis. Also in the Fall of last year, IRS-CI conducted training for investigators from Hacienda and the Mexican Attorney General's office in money laundering investigative techniques. FinCEN, IRS-CI and Customs will be providing more training in the coming year. In addition, the Department of Justice will be providing training in the prosecution of money laundering cases for Mexican prosecutors and judges.

Of course, the adoption of new legislation and regulations is but an initial step. Only through the effective enforcement of such rules, will we have an impact on the money laundering problem. In this respect, the Government of Mexico has posted a number of significant accomplishments recently. These include: the conviction of 13 defendants for money laundering from 1995 through 1996; the referral by the Mexican Treasury of 16 money laundering cases, involving approximately 96 defendants, to Mexican Attorney General's office for prosecution last year; the testimony by a Mexican Treasury official in two major narcotics trafficking/money laundering trials in the U.S.; and a cooperative investigation which resulted in the seizure by Mexican authorities of approximately $ 16 million in bank accounts associated with a Mexican drug trafficker. This seizure represents one of the largest ever by U.S. and Mexican authorities.

I recognize, of course, that there are shortcomings along with these successes. I share the concern that this Committee undoubtedly harbors that corruption continues to threaten the integrity of Mexican anti-narcotics efforts. Still, our intolerance for setbacks should not obstruct out view of tangible progress Mexico has made on this important issue.

In the last year, the Government of Mexico has acquired important new tools to combat money laundering, and has begun to utilize them. We are heartened by these developments. At the same time, we will continue to work diligently to ensure that Mexico capitalizes on the momentum generated by recent advances, using the new weapons at its disposal to bring swift and certain prosecutions against money launderers and to seize their ill-gotten gains.

This concludes my opening remarks. I will be happy to answer any questions you may have at this time.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED UNTIL 10:30 AM EDT
Text as Prepared for Delivery
May 15, 1997

TREASURY OFFICE OF FOREIGN ASSETS CONTROL
DIRECTOR R. RICHARD NEWCOMB
SENATE FOREIGN RELATIONS
SUBCOMMITTEE ON AFRICAN AFFAIRS

The Office of Foreign Assets Control (OFAC) administers economic sanctions and embargo programs against specific foreign countries or groups to further U.S. foreign policy and national security objectives. In administering these programs, OFAC generally relies upon Presidential authority contained in the Trading With the Enemy Act (TWEA) or the International Emergency Economic Powers Act (IEEPA), or upon specific legislation, to prohibit or regulate commercial or financial transactions with specific foreign countries or groups.

Examples of current TWEA programs include comprehensive asset freezes and trade embargoes against North Korea and Cuba. Examples of current IEEPA programs include similarly broad sanctions against Libya, Iraq, the Cali Cartel, and certain terrorist groups, as well as comprehensive trade sanctions against Iran.

Alternatively, sanctions may be imposed by Congress directly through legislation. Administration of sanctions within the Executive branch in these cases is usually delegated to the relevant enforcement agency, depending on the nature of the restrictions. Between 1986 and 1991, for example, OFAC administered the trade and investment prohibitions against South Africa mandated by the Comprehensive Anti-Apartheid Act. Similarly, OFAC has been delegated administration of Section 321 of the Antiterrorism and Effective Death Penalty Act of 1996 (the Act), which was signed into law by the President on April 24, 1996.

Section 321 of the Act prohibits all financial transactions by United States persons with the governments of terrorism-supporting nations designated under section 6(j) of the Export Administration Act. Effective August 22, 1996, except as provided in regulations issued by the

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Secretary of Treasury, in consultation with the Secretary of State, the Act prohibited all financial transactions by U.S. persons with: North Korea, Cuba, Iran, Libya, Iraq, Syria, and Sudan.

All but Syria and Sudan were the subject of existing comprehensive financial and trade embargoes at the time of enactment. In accordance with foreign policy guidance provided to Treasury by State, existing sanctions programs against North Korea, Cuba, Iran, Libya, and Iraq were continued without change. This permitted the specific policies developed over time with respect to each of these countries to remain in effect, including the exceptions to each embargo dictated by unique humanitarian, diplomatic, news gathering, intellectual property, and other concerns.

New regulations, known as the Terrorism List Governments Sanctions Regulations, were issued to impose the prohibitions on financial transactions with respect to Syria and Sudan. The new regulations, also drafted in accordance with foreign policy guidance provided by State, authorize financial transactions with the Governments of Syria and Sudan except for (1) transfers from those governments in the form of donations and (2) transfers with respect to which the U.S. person knows or has reasonable cause to believe that the financial transaction poses a risk of furthering terrorist acts in the United States. The regulations are consistent with the legislative history of Section 321 of the Act.

From a sanctions enforcement perspective, we believe the Act and implementing regulations are important because they provide OFAC with comprehensive jurisdiction over all financial transactions between U.S. persons and the Governments of Syria and Sudan. We now have authority for the first time to act to stop or impede any particular suspicious transfer to or from these governments by informing U.S. persons handling the transfer that a reasonable cause exists to believe that the transaction may pose a risk of furthering terrorist activity in the United States, or any other questionable activity inconsistent with the Act's antiterrorist purposes. We believe the Act's authority provides a significant new tool in the war against terrorist funding.

Thank you. I would be pleased to take any questions.

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
May 15, 1997

Contact: Office of Financing
(202) 219-3350

TREASURY'S INFLATION-INDEXED NOTES
JUNE 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 June for the 10-Year Treasury inflation-indexed notes of Series A-2007. 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 1686. The information is also available on the Internet at Public Debt's home page: (http://www.publicdebt.treas.gov).

The information for July is expected to be released on June 17, 1997.

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TREASURY 10-YEAR INFLATION-INDEXED NOTES

SERIES:	A-2007
CUSIP:	9128272M3
DATED DATE:	January 15, 1997
ORIGINAL ISSUE DATE:	February 6, 1997
ADDITIONAL ISSUE DATE:	April 15, 1997
MATURITY DATE:	January 15, 2007
Ref CPI on DATED DATE:	158.43548
TABLE FOR MONTH OF:	June 1997
NUMBER OF DAYS IN MONTH:	30

CPI-U (NSA) Feb. '97	159.6
CPI-U (NSA) Mar. '97	160.0
CPI-U (NSA) Apr. '97	160.2

Ref CPI and Index Ratios for June 1997:

Calendar day			Ref CPI	Index Ratio
June	1	1997	160.00000	1.00987
June	2	1997	160.00667	1.00992
June	3	1997	160.01333	1.00996
June	4	1997	160.02000	1.01000
June	5	1997	160.02667	1.01004
June	6	1997	160.03333	1.01009
June	7	1997	160.04000	1.01013
June	8	1997	160.04667	1.01017
June	9	1997	160.05333	1.01021
June	10	1997	160.06000	1.01025
June	11	1997	160.06667	1.01030
June	12	1997	160.07333	1.01034
June	13	1997	160.08000	1.01038
June	14	1997	160.08667	1.01042
June	15	1997	160.09333	1.01046
June	16	1997	160.10000	1.01051
June	17	1997	160.10667	1.01055
June	18	1997	160.11333	1.01059
June	19	1997	160.12000	1.01063
June	20	1997	160.12667	1.01067
June	21	1997	160.13333	1.01072
June	22	1997	160.14000	1.01076
June	23	1997	160.14667	1.01080
June	24	1997	160.15333	1.01084
June	25	1997	160.16000	1.01088
June	26	1997	160.16667	1.01093
June	27	1997	160.17333	1.01097
June	28	1997	160.18000	1.01101
June	29	1997	160.18667	1.01105
June	30	1997	160.19333	1.01110

DEPARTMENT OF THE TREASURY

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EMBARGOED UNTIL 2:30 P.M.
May 16, 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 $13,487 million of publicly-held 52-week bills maturing May 29, 1997, and to raise about $275 million of new cash. In addition to the maturing 52-week bills, there are $20,502 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 $12,696 million of the three maturing bills. These accounts are considered to hold $5,840 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 $7,144 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 $280 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
RR - 1687

For press releases, speeches, public schedules and official biographies, call our 24-hour fax line at (202) 622-2040

HIGHLIGHTS OF TREASURY OFFERING OF 52-WEEK BILLS TO BE ISSUED MAY 29, 1997

May 16, 1997

Offering Amount	$13,750 million
Description of Offering:	
Term and type of security .	364-day bill
CUSIP number	912794 4V 3
Auction date	May 22, 1997
Issue date	May 29, 1997
Maturity date	May 28, 1998
Original issue date	May 29, 1997
Maturing amount.	$19,327 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 Daylight Saving time on auction day
Competitive tenders	Prior to 1:00 p.m. Eastern Daylight Saving 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
May 19, 1997

CONTACT:
Beth Weaver (202) 622-2960

MEDIA ADVISORY

TREASURY ANNOUNCES NEW REGULATIONS TO CRACK DOWN ON MONEY LAUNDERING

Treasury Secretary Robert E. Rubin and Under Secretary for Enforcement Raymond W. Kelly will make an announcement today at 2:00 p.m. on three Notices of Proposed Rulemaking designed to prevent and detect money laundering. The press conference will take place in the large conference room of the Treasury building, 1500 Pennsylvania Avenue, N.W. Cameras may set up at 1:00 p.m.

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

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DEPARTMENT OF THE TREASURY

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FOR IMMEDIATE RELEASE
May 19, 1997

CONTACT:
Beth Weaver (202) 622-2960

REMARKS OF SECRETARY RUBIN
ANNOUNCEMENT OF NEW REGULATIONS
TO CRACK DOWN ON MONEY LAUNDERING

Good afternoon. Thank you for being here today for this important announcement.

With me are Ray Kelly, Under Secretary for Enforcement, Sam Banks, Deputy Commissioner of the Customs Service, Stan Morris, Director of the Financial Crimes Enforcement Network, and Ed Federico, Deputy Assistant Commissioner of the Internal Revenue Service-Criminal Investigation Division.

As most of you know, one of the core elements of the Treasury Department's law enforcement mission is the prevention and detection of money laundering.

Money laundering is the process that enables drug and gun traffickers and terrorist groups to convert illegal and unusable proceeds into usable funds. It is "life blood" of organized crime.

But is also the "Achilles heel," as it gives us a way to attack the leaders of criminal organizations. While the drug kingpins and other bosses of organized crime may be able to separate themselves from street-level criminal activity, they cannot separate themselves from the profits of that activity.

Treasury is continuously working to develop new and innovative techniques to close off the channels the launderers use to move their funds into the economy, to put the launderers themselves behind bars, and to seize their assets.

One of the most effective techniques that we have employed recently has been a Geographic Targeting Order, or "GTO," which required certain businesses that wire money to report all wire transfers to Colombia in excess of $ 750. The evidence showed that these businesses were being used to wire as much as $ 800 million in drug profits to Colombia.

I will let Ray Kelly give you the details of this enormously successful initiative. I'll only point out that since it was put in effect, the flow of drug money through these businesses to Colombia has virtually dried up. Some operations have been shut down. Arrests have been made. And millions in drug profits have been seized.

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Some months ago, I visited the headquarters of Treasury's Operation El Dorado in New York, which is spearheading the GTO initiative. In discussions with the leaders of this operation, I was extremely impressed both with the strategy, and the level of cooperation among the Customs Service, FinCEN, the IRS, the NYPD, the U.S. Attorney's Office and the other authorities involved.

Today, at the urging of President Clinton, we will take steps to make the New York GTO apply nationwide. And we will be extending the reach of our anti-money laundering efforts to other businesses that could be at risk.

Let me stress that the overwhelming majority of these businesses are engaged in legitimate, and valuable, commercial activity. Indeed, the industry has been extremely supportive of our work. The new rules are only intended to make life difficult for the money launderers and their accomplices.

Now, I will give the floor to Ray Kelly, who will discuss these new measures and respond to your questions.

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Treasury Anti-Money Laundering Regulations

On Wednesday, May 21, 1997, the Department of the Treasury will publish three Notices of Proposed Rulemaking in the Federal Register designed to prevent and detect money laundering in the money services businesses -- money transmitters, issuers, redeemers and sellers of money orders and traveler's checks, check cashers, and currency retail exchangers. While these regulations are the result of the lessons learned from the New York Geographic Targeting Order ("GTO"), the regulations themselves are much broader than that order.

The GTO

Beginning on August 7, 1996, certain licensed money transmitters in the New York metropolitan area and their agents have been subject to an order requiring them to report information about the senders and recipients of all cash-purchased transmissions to Colombia of $750 or more. Under Secretary of the Treasury for Enforcement Raymond W. Kelly issued the "GTO" pursuant to a provision of the Bank Secrecy Act (BSA). GTOs are intended to be temporary measures, and can be authorized for no more than 60 days at a time.

The El Dorado Task Force

The GTO's origins lie in the investigative efforts of the Treasury-led El Dorado Task Force, a joint federal, state and local effort that includes some 140 agents, police officers and support personnel from 13 agencies, including Customs, the IRS Criminal and Examination divisions, the Secret Service, the NYPD and New York State Banking Department.

El Dorado developed evidence that certain New York area money remitters and their agents were engaged in a scheme to move drug money to Colombia by breaking up large cash transactions to avoid the reporting and record keeping requirements of the BSA. Armed with this information, 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 from Customs and IRS, presented Treasury's Financial Crimes Enforcement Network (FinCEN) with a compelling case that a GTO would be an appropriate step to take against these transmitters. FinCEN staff then worked closely with the primary Assistant U.S. Attorney and others from Customs, IRS and the Department of Justice to review the application and craft an appropriately tailored order, originally involving 12 licensed money transmitters and 1,600 agents.

The GTO was extended and expanded in October 1996 to include a total of 22 licensed transmitters and approximately 3,500 agents. The order was extended again in December and February, and extended again and expanded to include one more licensed money transmitter the first week of April, 1997.

Effects of the GTO

The GTO caused an immediate and dramatic reduction in the flow of narcotics proceeds to Colombia through New York City money transmitters. Treasury's analysis of data generated by the GTO is ongoing, but the targeted money transmitters' business volume to Colombia appears to have dropped approximately 30%. Business to Colombia dropped off even at the money remitters not subject to the GTO, suggesting that much of the money remitted to Colombia was controlled centrally by high-level cartel money brokers.

In the aftermath of the GTO, Customs has observed a marked increase in interdiction and seizure activity at the borders -- over $50 million in the first 6 months since the GTO went into effect, approximately four times more than in prior years.

The GTO also has had a significant impact on money laundering activity among the targeted transmitters. Several stopped sending funds to Colombia. One went out of business altogether. One money transmitter agent has pled guilty to structuring transactions to avoid the reporting requirements, and the El Dorado Task Force has made numerous additional arrests. El Dorado is continuing to pursue investigations of this type, and FinCEN will consider imposing civil penalties against violators who are not pursued criminally.

In addition to the Proposed Rules, Treasury is considering whether, and under what circumstances, to issue additional GTOs. In late May, Treasury and the Department of Justice will be convening a meeting of US Attorneys and Special Agents from high-risk money laundering areas to introduce the GTO and other tools which Treasury has at its disposal.

Proposed Rules

In response to the results achieved through the GTO, President Clinton asked Treasury to look for ways to translate into a permanent solution the benefits realized through this interim measure. The rules announced today seek to achieve this goal.

Registration of Money Services Businesses (MSBs)

The most fundamental of these proposals is to implement the Congressional mandate to register "money transmitting businesses"generally, which includes money transmitters or remitters, money order issuers and sellers, travelers check issuers and sellers, retail currency exchangers, and check cashers. Treasury has redefined this class of businesses as money services businesses ("MSBs") to avoid confusion between the terms money transmitting business and money transmitter, and has drafted the registration proposal in a way that strikes an appropriate balance between law enforcement's need for accurate information about the owners and locations of MSBs against the concern that small businesses be spared of unnecessary and intrusive regulation.

Suspicious Transaction Reporting by MSBs

The second proposed regulation would extend the suspicious activity reporting requirements -- already in place with respect to banks -- to money transmitters and issuers, sellers and redeemers of traveler's checks or money orders. Because customers of these institutions do not maintain

account relationships, it is more difficult for these entities to know their customers well enough to spot suspicious transactions. To address this potential problem, the proposed rule provides guidance by listing specific indicia of suspicious transactions gleaned from money laundering investigations.

Lowered Threshold for Currency Transaction Reporting By Money Transmitters
The final proposed regulation essentially makes the New York GTO apply nation-wide and on a permanent basis. Under the proposed rule, money transmitters would be required to report currency transactions of $750 or more that involve the transmission of funds to any person outside the United States. The rule also requires the remitters to verify the identity of the person sending the funds. Treasury does not believe that this rule will unduly burden legitimate business; the vast majority of legitimate remittances are between $200 and $500.

DEPARTMENT OF THE TREASURY

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EMBARGOED UNTIL 2:30 P.M. EDT
Text as Prepared for Delivery
May 20, 1997

TREASURY SECRETARY ROBERT E. RUBIN
SENATE APPROPRIATIONS SUBCOMMITTEE ON FOREIGN OPERATIONS

Mr. Chairman, it is a pleasure to testify today on the President's FY 1998 budget request for foreign operations. Over the last few weeks, we have seen how much we can accomplish when we act together in a bipartisan manner: Congress passed the Chemical Weapons Convention and, of course, we've reached an agreement on a plan to balance the budget. We should now carry that spirit of bipartisanship to other key priorities that are facing the nation and we will be working on issues such as fast track authority and most favored nation status for China in the near future. Today, I would like to discuss one of our most important priorities: the imperative of maintaining U.S. leadership in the global economy by fully funding our share in the international financial institutions.

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 fully in the international institutions and the global economy. We must fully commit 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 less than one percent of 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 multilateral development banks (MDBs). We have achieved increases in social sector lending by the MDBs and worked forcefully for continued reforms, even as we have negotiated major reductions of our budgetary commitments. We have, in fact, made significant progress on all fronts. Account by account, we have negotiated, on average, a 40 percent reduction in future U.S. obligations to the MDBs, which, after we pay our arrears, will lower our total annual commitment to $1.2 billion. On the basis of this annual U.S. investment, we are able to

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strongly influence the $46 billion that the MDBs lend.

The Administration, working with Congress, has taken the lead in securing needed administrative reform in the IFIs. The MDBs and the IMF 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. To cite a few examples:

- 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. The Bank has now embarked on a new reform program, the Strategic Compact, which is very responsive to U.S. reform priorities. We support President Wolfensohn's efforts to reform and we are working closely with him to minimize the costs associated with this program.

- The IMF has also controlled its administrative budget, cutting it by one percent in real terms over the last three fiscal years. It has made substantial advances in transparency and strengthened its capacity to detect financial crises.

- The Inter-American Development Bank has cut its budget by 5 percent in real terms since 1995 and staffing is down 12 percent from its peak in 1988. Yet loans managed by the bank have increased 48 percent since 1991.

- The African Development Bank has instituted a sweeping reorganization including term limits and replacing 70 percent of its managers.

Despite this progress, we are now behind in our payments to the MDBs by $862 million. 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 MDBs and the Global Environment Fund. 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 MDBs includes over $300 million to partially pay down those arrears, the first payment on a proposed three year plan, with the remainder going to meet our annual commitments.

This year is critical. If we do not meet our commitments, we will put at risk our leadership in these institutions and thereby our ability to shape policy with respect to developing countries. This risks affecting foreign policy priorities in places from Bosnia to the former Soviet Union to Africa. Failure to meet our commitments would also undercut our ability to direct ongoing reforms. We cannot lead with other people's money.

We make this budget request purely and simply because it is in our economic and national security interest. The IFIs are important to our interests for two basic reasons. First, they help foster growth in the developing world. That, in turn, promotes global prosperity and stability, which creates new markets for U.S. goods.

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. The MDBs are also building the essential foundations for growth in the poorest countries by funding child survival, and improvements in health, education and basic infrastructure. The IMF's Enhanced Structural Adjustment Facility (ESAF) lays the groundwork for the banks' efforts through the macroeconomic and structural conditions attached to ESAF loans.

Last month, I traveled to Vietnam, a very poor country in the midst of transformation from a state run economy to a market economy, struggling to build the infrastructure of a modern economy. I met with the general secretary of the Communist Party, the prime minister and the finance minister. These officials -- the leaders in what is still a communist country, a country that fought a war with the United States only 25 years ago -- were keenly focused on what constitutes a market economy, how you get there, and how to attract more foreign investment. It is precisely this kind of help in developing a modern market-based economy that the IFIs can provide.

While in Vietnam, I visited a school outside Ho Chi Minh City. I saw how World Bank funds provided for a new school building and textbooks for children. I only wish that every member of Congress could see what our money buys.

The ESAF, IDA, debt reduction and African Development Fund requests are integral to the Administration's effort to foster growth in Africa, an area vastly behind in development. A growing and dynamic Africa -- an Africa committed to democracy, economic reform, and sustainable development -- will provide higher standards of living for its people and be more stable politically and socially. That, in turn, will present new markets for American businesses, create jobs and increase standards of living in this country. It will also strengthen our national security as stability in any part of the globe contributes to our national security. Hopefully, it will save us the very high costs of responding to crises in Africa. We have proposed a bold initiative to foster solid macroeconomic conditions, open trade and other economic reforms to attract private sector capital and promote growth -- and we are working with Congress on a bipartisan basis to enact it. We will need the help of the IFIs to move forward with our initiative.

The IFIs' work in promoting growth in developing nations has clearly benefited U.S. businesses and workers. 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. Of course, the MDBs 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 MDBs.

The IMF is critical to fostering a stable, well-functioning global financial system that facilitates the trade and investment flows necessary to the growth and opening of markets around the world. The IMF serves us very well as the guardian and guarantor of that system, helping to

integrate its newest participants and preventing and containing severe financial shocks.

Before I close, let me mention one final issue. Our FY 1998 budget includes a request for $3.5 billion 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 that create systemic risk, and do so in a manner that reduces our share of the burden. We are also reviewing the adequacy of the IMF's normal quota resources. If that review shows that a quota increase is necessary for the IMF to do its job over the medium term -- and if we are able to negotiate a satisfactory agreement within the IMF -- then we will request an increase in the U.S. quota. We will continue to consult closely with Congress as this process develops. Like funds for the NAB, use of 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.

Mr. Chairman, there has been a tremendous movement over the past decade toward a global economy. Countless U.S. workers and businesses depend on trade -- and a thriving global economy -- for their livelihoods. The World Bank, the regional development banks, the IMF, the United Nations and bilateral assistance programs, play vital roles in the global economy by promoting economic growth, democracy, free markets, the rule of law, a stable international monetary system and sustainable development. They advance the interests of the American people.

But our ability to advance those interests will be gravely jeopardized if we do not begin this year to pay what we owe and to fully fund our current commitments. The Administration stands ready to work with you to maintain the bipartisan commitment to these institutions that has existed for fifty years and which gives us the power to guide global economic growth and reform. Thank you very much.

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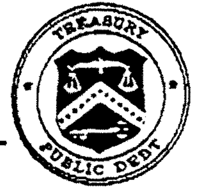
AUCTION RESULTS

PUBLIC DEBT NEWS



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

FOR IMMEDIATE RELEASE
May 19, 1997

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for $7,519 million of 13-week bills to be issued May 22, 1997 and to mature August 21, 1997 were accepted today (CUSIP: 9127942T0).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	5.14%	5.28%	98.701
High	5.17%	5.31%	98.693
Average	5.17%	5.31%	98.693

Tenders at the high discount rate were allotted 81%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$32,507,830	$7,519,383
Type		
Competitive	$30,893,742	$5,905,295
Noncompetitive	1,354,488	1,354,488
Subtotal, Public	$32,248,230	$7,259,783
Foreign Official Institutions	259,600	259,600
TOTALS	$32,507,830	$7,519,383

In addition, $3,968,664 thousand was awarded to the Federal Reserve Banks for their own accounts.

5.15 -- 98.698   5.16 -- 98.696

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AUCTION RESULTS

PUBLIC DEBT NEWS

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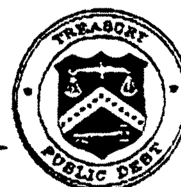

FOR IMMEDIATE RELEASE
May 19, 1997

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for $7,510 million of 26-week bills to be issued May 22, 1997 and to mature November 20, 1997 were accepted today (CUSIP: 9127945U4).

RANGE OF ACCEPTED
COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	5.34%	5.57%	97.300
High	5.36%	5.59%	97.290
Average	5.35%	5.58%	97.295

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	$31,634,886	$7,509,676
Type		
Competitive	$28,094,035	$3,968,825
Noncompetitive	1,146,151	1,146,151
Subtotal, Public	$29,240,186	$5,114,976
Foreign Official Institutions	2,394,700	2,394,700
TOTALS	$31,634,886	$7,509,676

In addition, $2,975,000 thousand was awarded to the Federal Reserve Banks for their own accounts.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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Embargoed for 7 p.m. EDT
Remarks Prepared for Delivery

Secretary Robert Rubin
Remarks to the Japan Society
May 19, 1997

It is a pleasure to speak to all of you today. Let me thank the Japan Society for inviting me and for hosting this event. Let me start by saying a few words about the importance and difficulty of building support for a strategy of American engagement in the international economy and then I will turn to the U.S.-Japan relationship, and the challenges we both face in fostering growth.

Since taking office, President Clinton has pursued an economic strategy based on the firmly held belief that our economy is an integral part of the global economy, and, thus, our economic well-being is profoundly affected by what happens abroad. In order to have the requisite public support for policies that reflect that view, such as continuing to work to liberalize world trade, renewing most-favored nation status for China, and maintaining support for the United Nations, World Bank, and other international institutions, it is critical that there be a shared understanding among the American people of the importance of our engagement and leadership abroad.

I have a deeply troubled feeling, as I speak to different groups and spend time on the Hill, that we are losing that understanding, that there is a retreat from support for policies that promote U.S. international engagement. I believe that it is absolutely vital to our national interest to reverse that retreat. As an organization dedicated to building stronger ties between the United States and Japan, your organization has the position, as we in government do as well, to promote that shared understanding, and I think it is critical that you do so.

Last month, I took a trip to Asia that underscored for me the importance of our leadership and engagement abroad, and for building a better understanding of that importance. I traveled first to Tokyo, where I met with Prime Minister Hashimoto, who I had first met -- and argued, in a friendly spirit -- when he was Trade Minister. I then visited the Phillippines, where I met with
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the APEC finance ministers, and Vietnam, where I witnessed the early stages of what could be a remarkable transformation.

My trip reinforced for me three views with respect to today's global economy that are critically important for the United States -- and Japan.

First, there is an emerging consensus around the globe on how best to achieve economic growth: market based incentives, effective capital markets, sound fiscal policies, education, a reliable legal framework, and with hesitation on the part of some, open markets. I have heard this in Latin America, Asia, and Eastern Europe. When I was in Vietnam, I visited Hanoi and Ho Chi Minh City and met with the general secretary of the Communist Party, the prime minister and the finance minister. What struck me was that these officials -- the leaders in what is still a communist country, a country that fought a war with the United States only 25 years ago -- were keenly focused on what constitutes a market economy, how you move to a market economy and how to attract more foreign investment. Developing nations around the globe like Vietnam look to the United States -- and to Japan -- for guidance in addressing these challenges.

Second, global economic integration is becoming a fact of life. Our economic success is increasingly linked to the health of the global economy and the nations around the globe are increasingly creating regional alliances, sectoral agreements -- and trade agreements of all kinds. The only question is whether we will be part of them, or on the outside looking in -- much to our detriment.

Finally, we -- and Japan -- can play a crucial role in helping developing nations build well functioning market economies and modern capital markets, or, as is the case in Vietnam, make the transition from state dominated, centrally planned economies to open, free market economies. By fostering growth in the developing countries, we create bigger markets for our goods and services and so promote growth in the United States and Japan.

All of this underscores the importance of stronger ties between the United States and Asia, the most dynamic economic region on earth. We now export more to Asia than to Europe. Developing countries alone in Asia now represent 24 percent of world GDP and their share of world trade rose from 9.6 percent in 1981 to 16.1 percent in 1994. It is enormously in our economic and national security interest to promote political stability, economic growth, and peace in the region, and to be an integral part of the Pacific region's trade and other structures. From the very beginning of the Administration, the President has emphasized the importance of integrating ourselves with other regions in the world.

Central to our Pacific strategy are strong economic, political and national security ties between Japan and the United States. With our countries being the two largest economies in the world and together representing one third of world GDP, an effective working relationship between our two countries key to the stability and prosperity of not only Japan and the United States, but the entire region and the global economy.

When President Clinton came into office, he was determined to address the problems in our economic relationship with Japan forthrightly, rather than papering over differences, as had sometimes been the practice. In four years we have made real progress. For its part, Japan has acted to reduce its global trade and current account surpluses and they have come down roughly 50 percent, reflecting, in part, policies by the government to promote structural changes and to promote domestic demand.

Our two nations have negotiated 24 trade agreements during this period, and these agreements have contributed to the 44 percent growth of U.S. exports to Japan over the last four years. Japan's imports have risen from 7 percent of GDP in 1993 to 9.4 percent last year.

We have learned that disagreements in some areas need not prevent strategic and economic cooperation on a wide range of important issues. We have a very strong relationship between Treasury and the Japanese Finance Ministry and cooperate closely on financial market issues and on issues in the G-7, the World Bank, the Asian Development Bank, and the IMF.

Having said this, let me now turn to growth, because as I have said, growth in our two countries is critical not only to our countries, but, because of the size of our economies, to the health of the entire global economy.

Let me start with the United States. We have enjoyed five years of very favorable economic conditions, but we must not let that mask the economic challenges that we face, if we are to succeed in the global economy in the years and decades ahead, especially fiscal responsibility, successfully addressing education, the inner cities and other areas crucial to future productivity, and providing leadership in the international economy.

Japan, in contrast, has experienced a five year period of poor economic performance, which has exposed a number of challenging economic problems that were to some extent masked by the remarkable growth of the post-war period.

Excessive government regulation, restrictive informal business practices, and markets that are relatively closed to foreign competition reduce competitiveness, investment and growth. The financial system, ironically, may have suffered from too little effective regulation, and an unwillingness to face problems, and so is still in the early stages of adjusting to a very large non-performing loan problem that has reduced its ability to finance investment that is important to growth. And, looking forward, Japan faces a daunting demographic problem, much worse than that faced by the United States and the other major industrial countries, which will require strong growth to generate the resources necessary to deal with an aging population.

Japan faces these challenges with many of the sources of strength that were so important to the decades of rapid growth following the end of the war: a highly disciplined society, a high savings rate, a strong commitment to education, and impressive efficiency in manufacturing. But as a mature industrial economy, with a labor force growing only slowly, and no longer

inexpensive relative to the West, and having already caught up to and in certain cases surpassed the technological best practices of the West, many of the sources of strong growth in the post-war period are no longer available.

I always feel very hesitant about commenting on other countries' economies, but because of it's size and importance in the international economy and financial system, Japan's success in dealing with these challenges is important to not only to Japan, but to workers, businesses, and governments around the world. And so, in the strong economic partnership between our two countries, I would like to highlight a few of the areas which we believe are important to the future growth of the Japanese economy.

First, is the challenge of achieving strong economic growth driven by domestic consumption, and avoiding a significant increase in Japan's external surplus. After our meeting in Tokyo, Prime Minister Hashimoto released a statement reiterating these objectives. His strategy is a restrictive fiscal policy and deregulation. If that doesn't work, then Japan will face the challenge of how else to meet the objective. Current account balances will naturally rise and fall, but it is critical that Japan's current account surplus not rise again to a level that harms global growth, that causes trade frictions with Japan's trading partners, and that could fuel protectionist sentiments in other parts of the world.

Second is the challenge of continuing to open Japan's markets. Large parts of the economy are still subject to formal or informal trade impediments. It is true that the United States and the rest of the world has a lot to gain from progress in reducing those impediments. But the benefits for Japan are equally great in terms of more choices and lower prices for the consumer and the competitiveness of its economy.

Third, an issue that is closely related to opening Japan's markets, is the challenge of building on Prime Minister Hashimoto's ambitious commitment to deregulation. Our view is that the faster these reforms are put in place, the better, because they are critical to a stronger Japanese economy over the long run. Ultimately, the measure of their success is the extent to which the Japanese economy becomes more open, internally and externally.

Fourth, Japan faces the challenge of strengthening its financial system. In the United States, one critical lesson that we have learned at great cost to ourselves is that, when problems arise, they must be addressed quickly, as demonstrated by our failure to do that in the savings and loan crisis of the 1980s. Japan has taken a number of steps in the right direct, but the job doesn't seem to be over.

In a sense, Japan may be at a crossroads. Because of Japan's inherent strengths, it has the potential for a robust economic future, but to realize that potential its challenges must be met. And, again, a healthy and strong Japan is very much critical to the economic and national security interest of the United States, the Asia-Pacific region, and the entire world.

The United States may be at a crossroads as well. We face a number of critical decisions over the next few months which will help define our role in the international economy. Lately, when I've gone to G-7 meetings of finance ministers and central bank governors, other countries have started to express their concern about where we may be heading, as evidenced by U.S. arrears to the United Nations and the World Bank, our inability to provide leadership on trade liberalization, and the like.

And this takes me back to the beginning of my remarks. We must work together, the government, and groups that are committed to U.S. international engagement such as the Japan Society, to build a shared understanding among our citizens of 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. Thank you very much.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR IMMEDIATE RELEASE
May 20, 1997

REMARKS BY TREASURY SECRETARY ROBERT E. RUBIN

Thank you, Mr. Vice President. The Treasury Department and the IRS look forward to working with the National Performance Review as we continue the process of creating an effective, efficient and taxpayer-friendly Internal Revenue Service.

There are real problems at the IRS that have developed over many, many years and that will take time to correct. Though there is an enormous amount of work to do, the IRS and Treasury have been intensely focused on this, and there has been real progress.

The IRS just completed a very successful filing season. Electronic filing was up 19%, telefiling was up 65%, there were more than 140 million hits on the IRS WEB site, and we have issued over 65 million refunds.

This is a great tribute to the commitment and ability of the 110,000 employees of the IRS. They perform the absolutely vital function of collecting roughly 95% of the revenue for the Federal government under difficult circumstances. This allows the Federal government to fund everything from our national defense to social security, to Pell grants and to all else that our government
does. That is why politically motivated attacks on the IRS -- as distinguished from constructive focus on problems -- are so detrimental to our national interest. These employees deserve our support and all that we can do to help them fulfill their mission. Again, Mr. Vice President, that is why we all welcome the contributions of the NPR to help the IRS continue to move forward to improve customer service.

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I'd also like to acknowledge the work of the National Commission on Restructuring the IRS, co-chaired by Senator Kerrey and Congressman Portman, which is fruitfully engaged in a number of areas.

Let me now turn to an area where Treasury and the IRS have already begun making real changes. One central area of difficulty at the IRS has been the computer system. A little over a year ago, the IRS and Treasury pledged to make a sharp turn on systems. Subsequently, we hired a new Chief Information Officer with a strong record on tax systems, eliminated 26 wasteful contracts and collapsed the remaining into 9, and began to draft a Modernization Blueprint to guide the overhaul of the IRS technology. These steps were taken under the direction of a new Modernization Management Board, which includes representatives from Treasury, OMB, and the NPR and is chaired by Deputy Secretary Larry Summers.

Last week, after months of extensive consultations with private and public sector experts, the IRS released the blueprint for technology systems to replace today's patchwork with a coherent system. That plan, which breaks dramatically with the past by establishing a strategic partnership with the private sector, will be implemented incrementally, so that it can be tested as it goes along. Initial reactions to the plan have been very positive.

This new technology blueprint was a product of the IRS working with effective Treasury oversight, which is one element of a five point program that, two months ago, Deputy Secretary Summers set forth for Treasury with respect to improving the IRS. In brief summary, those five points were:

1. Institutionalizing intense and pro-active Treasury oversight.

2. Multi-year capital budgeting.

3. Tax simplification within the existing Code -- we have since set forth 60 proposed simplification changes.

4. Increased flexibility with respect to personnel management and compensation, and appropriate use of outside services.

5. A new Commissioner with extensive management experience.

Today I'm announcing three measures to implement the first of these points: institutionalizing oversight.

First, we will seek an Executive Order and, subsequently, legislation to create an IRS Oversight Board of administration officials that builds upon, expands the scope of, and makes permanent the success of the Board of officials that Deputy Secretary Summers has led in overseeing technology modernization. This Board will meet regularly to review major strategic, personnel and procurement decisions.

Second, we will seek to include in this Executive Order a requirement that the Secretary and Deputy Secretary appear twice yearly before an appropriate Congressional committee to report on the conduct of their oversight responsibilities. One purpose of such a step is to assure that all future occupants of these positions energetically fulfill these responsibilities because of highly public accountability.

Third, I will issue an order establishing an IRS Advisory Board, reporting to the Secretary and consisting of individuals from outside government to bring private sector and consumer expertise to bear on IRS management issues. This Board will be uniquely empowered to issue an Annual Report to the Taxpayers for transmittal to Congress.

In addition, we will propose legislation that would grant the IRS Commissioner a fixed five-year term for greater continuity of leadership and an improved focus on ongoing management, similar to the model provided by the Director of the F.B.I.

This Board will draw on the expertise of the private sector, but I strongly believe, after spending 26 years in the private sector and now 4-1/2 years in government, that there are important differences between the two. For example, with respect to the IRS, there are important law enforcement and privacy issues that are not appropriate for private sector control. These special characteristics of law enforcement and privacy underscore the importance of the IRS remaining accountable through the normal government system.

Let me add on a personal note that the easiest path for Deputy Secretary Summers and me would have been to walk away from the hard issues facing the IRS, and focus our attentions on all of the traditional economic and law enforcement functions of Treasury. But, in our view, that would have been an abdication of our responsibility. Instead, we decided to take full and explicit responsibility for the effective conduct of Treasury's oversight role. Moreover, in considering all ideas and

proposals with respect to the IRS, we have had only one criterion: What is most likely to get the IRS where it needs to be, while avoiding risk to its essential function, real or apparent conflicts with respect to law enforcement or other matters, and privacy concerns.

As in all matters, there are no perfect answers to getting the IRS back on track, but I believe this plan, with the exceedingly important addition of the National Performance Review announced today, will best continue the process of putting the IRS on the road to improved customer service, more efficient operations and increased ability to further compliance with the Nation's tax laws.

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DEPARTMENT OF THE TREASURY

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Internal Revenue Service Blueprint For Technology Modernization May, 1997

Summary

The new IRS "Blueprint for Modernization" outlines a plan to update the technological systems in order to provide superior service to the taxpayer, to move toward paperless operations, and to increase compliance with the law. The Blueprint represents a new way of doing business at the IRS. It is the first comprehensive attempt to form a strategic partnership with the private sector in order to address the problems of the past and ensure that the IRS is flexible for the future. The Blueprint uses a centralized, main-frame computer system that will ensure taxpayer privacy and minimize cost, while enabling IRS customer service and compliance personnel to easily access accurate and timely information.

History

In 1988, the Internal Revenue Service put into effect a plan to upgrade and modernize the agency's technological system. The plan, known as the Tax System Modernization (TSM), was implemented over the course of the next seven years. In 1995, the General Accounting Office released a report that uncovered failures in the program and large financial losses. It called for massive changes in program planning, management and implementation of TSM. Congress, in turn, called on the IRS by May 15, 1997 to produce a plan for correcting and updating its technological capabilities.

The primary failure of TSM was the result of inadequate design and planning. The system's multiple computers and databases installed could not be integrated with existing computers. TSM also failed to move the IRS toward a paperless system and made current inefficiencies worse. IRS employees were unable to access current and correct information to effectively serve American taxpayers.

A Sharp Turn

In early 1996 the Treasury Department - taking into account the serious problems with the IRS computer system - called for a sharp turn in technology modernization. Treasury:

- Hired a new IRS Chief Information Officer with extensive private sector experience and launched a nationwide search for new technical managers;

- Created the Modernization Management Board (MMB) to oversee the creation and implementation of new IRS technological systems.

RR-1695

- Put a stop to existing TSM contracts in order to review and evaluate the system:

- Eliminated 26 wasteful TSM contracts and collapsed the remaining contracts into 9:

- Began to draft a Modernization Blueprint to guide the overhaul of IRS technology.

Principles of the Blueprint

The new IRS "Blueprint for Modernization" outlines a plan to update the technological systems in order to provide superior service to the taxpayer, to move toward paperless operations, and to increase compliance with the law. The Blueprint represents a new way of doing business at the IRS. It is the first comprehensive attempt to form a strategic partnership with the private sector in order to solve the problems of the past and ensure that the IRS is flexible for the future. In preparing the Blueprint, the MMB used a number of strategic principles which were developed in accord with the 1995 GAO report. These principles are designed to:

- Ensure that the modernized computer system maximizes IRS employees' ability to serve taxpayers;

- Develop a centralized, main-frame computer system that guarantees taxpayer privacy and minimizes cost.

- Fully integrate the central computer with the existing computers and enable all systems to communicate.

- Require that technological improvements be implemented incrementally; that new stages be installed only when previous stages have been proven successful.

- Provide credible estimates of potential cost and deliverables before implementation.

The Plan

The Modernization Blueprint addresses the problems of the past, eliminates wasteful and ineffective projects, and develops a plan that is flexible for the future. The Blueprint uses a centralized, main-frame computer system that will ensure taxpayer privacy and minimize cost, while enabling customer service and compliance personnel to easily access accurate and timely information. The Modernization Blueprint calls for:

- A centralized and flexible system that is capable of adapting to constant changes in tax law.

- A computer system that is easy to use and enables IRS employees -- customer service representatives and compliance personnel -- to access accurate and timely information from one terminal in order to be more productive and offer better service.
  [IRS employees must currently use between 5-9 terminals.]

- A centralized database that better analyzes taxpayer records to improve compliance.

- An interactive computer system that will move the IRS to a paperless system. decrease operating costs. and expedite processing of taxpayer returns and refunds.

Future Steps

Along with the release of the Blueprint, the IRS plans to issue what is known as a Request for Comments (RFC), seeking input and guidance from the private sector. After receiving and reviewing comments and revising the Blueprint, the IRS, working with the MMB, will competitively bid a contract to assume overall responsibility. The selected contractor will work in collaboration with the IRS and the Treasury Department as the Blueprint is put into effect.

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Plan for IRS Governance

There will be no dilution of executive accountability for management of the IRS. However, there are three legitimate concerns with the existing approach:

1) inadequate institutionalization of oversight;
2) insufficient continuity of leadership; and
3) absence of outside input.

The following plans attempt to address those concerns, while maintaining the fundamental commitment to executive responsibility.

Commissioner

- Fixed, 5-year term
- Dismissable: at will of President

IRS Advisory Board

- A fourteen-member board, consisting of 4 senior executives from the private sector, 1 small business representative, 1 representative of the state tax commissions, 3 tax professionals (accounting and lawyers), 2 information technology experts, 1 representative from the of the non-profit or educational sector, and 2 community leaders.
- Members and chair are appointed by the Secretary of the Treasury
- Meets quarterly with the IRS, and then reports to the Secretary
- Board will present annual report to the taxpayers for transmittal to Congress
- Secretary will provide staffing to the Board

IRS Management Board

- Treasury will institutionalize a formal review board, consisting of the Office of the Secretary, other Treasury personnel, and representatives of the IRS, NPR, OMB, OPM, and other relevant government departments.
- Board will meet monthly. In addition the Secretary and Deputy Secretary will report to Congress semi-annually.
- Accomplished through a Presidential Executive Order

RR-1696

May 20, 1997

DEPARTMENT OF THE TREASURY

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EMBARGOED UNTIL 2:30 P.M.
May 20, 1997

CONTACT: Office of Financing
202/219-3350

TREASURY'S WEEKLY BILL OFFERING

The Treasury will auction two series of Treasury bills totaling approximately $15,000 million to refund $20,502 million of publicly-held 13-week and 26-week bills maturing May 29, 1997. This offering will result in a paydown for the Treasury of about $5,500 million. In addition to the maturing 13-week and 26-week bills, there are $13,487 million of maturing publicly-held 52-week bills.

In addition to the public holdings, Federal Reserve Banks for their own accounts hold $12,696 million of the three maturing bills. These accounts are considered to hold $6,856 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 $7,144 million of the three maturing issues as agents for foreign and international monetary authorities. Up to $3,000 million of these securities may be refunded within the offering amount in each of the auctions of 13-week bills and 26-week bills at the weighted average discount rate of accepted competitive tenders. Additional amounts may be issued in each auction for such accounts to the extent that the amount of new bids exceeds $3,000 million.

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-1697

HIGHLIGHTS OF TREASURY OFFERINGS OF WEEKLY BILLS TO BE ISSUED MAY 29, 1997

May 20, 1997

Offering Amount	$7,500 million	$7,500 million
Description of Offering:		
Term and type of security	91-day bill	183-day bill
CUSIP number	912794 5K 6	912794 5V 2
Auction date	May 27, 1997	May 27, 1997
Issue date	May 29, 1997	May 29, 1997
Maturity date	August 28, 1997	November 28, 1997
Original issue date	February 27, 1997	May 29, 1997
Currently outstanding	$13,442 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 Daylight Saving time on auction day

Competitive tenders . . . . Prior to 1:00 p.m. Eastern Daylight Saving 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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STATEMENT OF JAMES E. JOHNSON
ASSISTANT SECRETARY FOR ENFORCEMENT
U.S. TREASURY DEPARTMENT
BEFORE THE
SENATE COMMITTEE ON FOREIGN RELATIONS

Mr. Chairman and Members of the Committee, I appreciate the opportunity to discuss a very important trade issue, our critical enforcement responsibility to deny the U.S. market to products of forced labor manufactured in the People's Republic of China that may be intended for the United States. Key provisions of Federal law prohibit the importation of goods of any kind that are the product of forced or convict labor. The United States Customs Service enforces those laws along with over 400 other Federal laws and regulations at our borders. It is the responsibility of the Office of Enforcement of the Treasury Department to provide policy direction and regulatory oversight to the Customs Service in carrying out these important responsibilities.

Section 1307 of the Customs title of the U.S. Code prohibits the importation of merchandise mined, produced, or manufactured wholly or in part, in any foreign country by convict, forced or indentured labor. Another statute, section 1761 of Title 18, makes its a criminal offense to knowingly transport in interstate commerce or to import prison-made goods. These laws, originally intended solely as trade laws, now serve two roles; they protect the U.S. economy from unfair foreign competition and provide an important means of expressing our foreign policy concerns about certain human rights abuses abroad. In exercising these statutory powers, the Administration has imposed prohibitions against a broad range of trade goods from China.

Today, I would like to review with you a number of issues:

- An overview of the Customs role in forced labor enforcement
- The status and outlook for our enforcement arrangements with China
- Avenues for strengthening our law enforcement measures

In carrying out its mandate to enforce the laws concerning forced labor, Customs has the power to take two types of action -- one provisional, one permanent -- that prevent forced labor merchandise from clearing Customs and entering the U.S. market.

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First, Customs can issue a detention order based on information that reasonably, but not necessarily conclusively, indicates that the merchandise is the product of forced or prison labor. Products subject to a detention order will not be released from Customs custody for importation while the order is in effect. Normally an investigation would follow to determine whether a detention order should be replaced by a "finding". If the Commissioner of Customs makes a determination based on probable cause, with the approval of the Secretary of the Treasury, that the merchandise falls within the purview of the statute, a "finding" to that effect is published in the *Federal Register*.

The publication of this finding has the effect of imposing a permanent ban on importation of merchandise from the facility until the finding is revoked. In practice, the Office of Enforcement has the responsibility for reviewing and approving these Customs actions for the Secretary of the Treasury.

The People's Republic of China (PRC) is currently the country most frequently associated with the export of products of forced or prison labor to the United States, although the former Soviet Union, Mexico, and Japan have been the subject of prison labor allegations. Of the 21 detention orders currently in effect, 20 apply to China and one applies to Japan. Of the six current findings, four apply to China and two rather old findings apply to Mexican facilities.

Administration's Commitment To Enforcement

I would like to outline our efforts to enforce the convict labor statute, particularly with respect to our current focus on China. Firm enforcement to prevent entry of convict-made goods into the United States is a matter on which there has long been bipartisan agreement. This Administration, from its first months in office, has used the legal tools available to deny the U.S. market to forced labor products, as did the previous Administration and others before it. Seven of the 20 detention orders in effect against Chinese merchandise, and two of the four "findings" have been issued under this Administration. These actions have barred a wide variety of goods -- electric fans, hoists, surgical gloves, raincoats, artificial flowers, tea, sheepskin and leather, and iron pipe fittings -- from entering the U.S. market.

Our Experience With Implementation Of Our Agreements With China

In an effort to improve enforcement with respect to exports of convict-made goods from China, the United States and China entered into a Memorandum of Understanding (MOU) in August of 1992. The MOU calls for, inter alia, prompt investigation of suspected violations of the either party's laws respecting prison labor products, exchange of information on enforcement efforts, and the prompt facilitation of visits to relevant facilities upon the request of either party.

Since the MOU was reached, we have experienced difficulties with China in implementation. The Chinese have been slow to respond to our requests and their responses lacked detail. Following complaints by the State Department, the U.S. and China negotiated a Statement of Cooperation (SOC) that was signed in March of 1994. The purpose of the SOC was to establish clear rules for implementation of the MOU.

Our experience under the MOU has been mixed. Since the MOU was signed, Customs has referred 58 inquiries to the Ministry of Justice for investigation, and has received responses to 52. Customs has requested inspection visits to 20 facilities and 13 have been conducted. Over the last two years, Customs attaches at our embassy in Beijing have been permitted to make only one visit to a suspect

facility, that visit occurring in April of last year. Twenty-seven detention orders have been issued since 1991, the year before the MOU was signed, and 20 of those are still in effect; 6 others were revoked after Customs determined that the facilities in question did not use convict labor and one was replaced with a finding.

Notwithstanding the foregoing agreements, several problems have continued. The Chinese Government has frequently denied that facilities in which Customs is interested are prisons. On the other hand, where facilities are conceded to be prisons, the government takes the position that the products of that prison are not exported to the United States.

Commissioner Weise's prepared statement reports in greater detail our recent experience with the MOU and the SOC. Obviously that history is not a cause for rejoicing. Nonetheless, recent experience suggests to those who observe matters closely from our embassy in Beijing that a page may be turning.

The U.S. Embassy in Beijing has continued to raise the issue of implementation of the prison labor MOU with the Chinese. At the end of February, the Embassy was able to arrange with the Chinese Ministry of Justice for investigation of two new alleged cases of prison labor exports to the U.S. Although it is too early to tell whether this represents full cooperation on the MOU, the PRC appears willing to engage with the U.S. Government on this sensitive issue.

I would note more broadly that Treasury and State have raised U.S. concerns on human rights at every available meeting with the PRC. Treasury raised the issue with the Chinese Minister of Finance when he was in Washington in November for bilateral Joint Economic Commission discussions. Secretaries Christopher and Albright raised human rights at each of their meetings during their trips to Beijing, in November and February respectively. Finally, Secretary Rubin raised the issue during his bilateral with Vice Premier Qian Qichen in April in Washington.

More recent indications from our embassy are that the Chinese Ministry of Justice is expected to improve cooperation over the coming months. Customs attaches at the embassy are prepared to take advantage of this opening if it occurs. Our first objective is to clean up a backlog of over a dozen cases that require investigation in China. We are cautiously hopeful that the level of cooperation will improve somewhat.

Plans To Improve Enforcement Regarding Convict-Made Goods From China

We intend continually to remind the Chinese Government of our expectation that they respect the agreements they have signed with us dealing with forced labor, and that they will cooperate to enable us to obtain the information we need to respond to allegations that convict-made goods from China are entering the United States. Thus our approach through our attache's office in Beijing should be one of diplomatic persistence. Among other things, if any provision of the MOU or the SOC seems to be unclear or is being interpreted by the Chinese in a way detrimental to our enforcement efforts, we will not hesitate to recommend consultations or renegotiation of these documents.

We also intend to continue cultivating strong working relationships with our counterparts in the Chinese Government, and particularly in China's customs administration. We expect that this cooperation will pay dividends across the spectrum of our enforcement concerns, including forced labor.

The U.S. Customs Service has an excellent record of establishing strong working relationships with the services of other nations, through training and cooperation on enforcement matters. We want to cultivate the elements within China who see the obvious benefits of a cordial working relationship with a key U.S. agency such as Customs.

As we work to strengthen cooperative arrangements with the Chinese Government, we also expect that the broadening and deepening of U.S. business involvement in China as a result of normal trade relations will increase the amount and accessibility of information about China's business enterprises, for law enforcement purposes as well as business purposes.

In our efforts to enforce the law, we will continue to use the law enforcement sources and methods currently in place and expect to explore other avenues for obtaining better information. Among the most important resources we can draw upon are the competitors of forced labor facilities and competitors of those who import from them. It has been a consistent experience of the Treasury Department and the Customs Service that information from competitors plays an important role in making cases against violators of the Customs laws, the export and munitions control laws, and the economic sanctions programs.

Additionally, former employees or even current employees of U.S. firms often can be counted on to come forward with critical information if they perceive that their employers are profiting from international trade that violates our laws. To maximize the value of these law enforcement assets, we will strengthen our educational and outreach efforts in the forced labor area as we have in the areas of narcotics, money laundering, and sanctions enforcement.

Also, importers can be reminded of the legal risks that they take in not knowing their suppliers or others with whom they deal. Indeed, in some cases private businesses may have sufficient financial influence over their suppliers to be able to obtain information about the conditions under which their products are produced overseas or even to request plant visits. Failure on the part of U.S. importers to exercise reasonable care regarding those with whom they deal can increase their risk of Customs violations.

Conclusion

In conclusion, I would like to strongly reaffirm the importance that the Administration, the Treasury Department and the Customs Service attach to the enforcement of the forced labor laws. These laws are important instruments for the implementation of both our trade and economic policy and our foreign policy. We are going to do everything within our power to ensure that these laws are vigorously enforced.

I thank the Committee for its interest in our enforcement of the forced labor laws, and look forward to your questions.

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Remarks by Treasury Secretary Robert E. Rubin
to the Exchequer Club

Thank you for the opportunity to speak here today.

I'd like to talk about financial modernization, and the Treasury's approach to dealing with this important issue. Our objective is simple: modernizing financial services in a way that will benefit consumers, businesses, and communities, enhance competitiveness of our industry worldwide, and protect the safety and soundness of our financial institutions.

And the stakes here are enormous. The Bureau of Economic Analysis estimates that in 1995, Americans spent nearly $300 billion on brokerage, insurance, and banking services. Even if increased competition from financial modernization were to reduce costs to consumers by just 1 percent, that would be savings of $3 billion a year. And, as I'll explain a bit later, substantiality greater savings than that may be likely.

In many respects, moving forward on financial modernization is a logical next step in the financial services agenda the Administration has pursued since 1993.

We helped bring to conclusion one of the most costly chapters in the history of U.S. finance, the savings and loan debacle, by helping four years ago to pass the Resolution Trust Corporation Completion Act, and last year by helping pass legislation to increase capitalization of the Savings Association Insurance Fund, which insures deposits at thrift institutions.

We've also worked to enact landmark interstate banking legislation, which will go into effect nationwide on June 1st. And the bank and thrift regulators have been eliminating unnecessary regulatory burdens that serve no clear purpose, while protecting consumers and communities.

In 1995, at President Clinton's urging, regulators completely rewrote their Community Reinvestment Act rules, to enable banks and thrifts to focus on performance, not paperwork. Today depository institutions and communities are coming together in innovative ways to help serve creditworthy borrowers and rebuild areas long left behind. Similarly, the Treasury has established the Community Development Financial Institutions Fund, whose primary purpose is
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to help non-traditional lenders meet the financing needs of economically distressed communities.

All of these measures were good for the consumer, businesses and communities that depend every day on financial services.

Today, our nation's financial marketplace is exceptionally strong. Unprecedented numbers of Americans have access to credit. We have the most reliable, liquid markets anywhere. Our financial institutions are innovative, and function effectively in a highly competitive global economy.

The Challenge

But in the midst of all this progress, we're still operating under an outdated legal and regulatory structure. National banks can sell insurance, but only from a town of five thousand. Securities firms provide bank-like products, but can't actually own a bank. Bank holding companies can underwrite securities, but with arbitrary limitations on the revenues they can derive from that activity.

The Glass Steagall law may have been appropriate when we had a dramatically different financial system. But think of the enormous changes that we've seen since then: We have developed a very sophisticated system of bank supervision. Our securities markets are the most liquid and reliable in the world. Geographic barriers to competition have come down. Financial products are rapidly converging. Globalization has spurred greater opportunity and competition. And technological innovation is a driving force behind the development of sophisticated financial products.

As you know better than anyone, the old lines that separated the insurance, securities, and banking industries have increasingly blurred as new financial products and services have appeared. And regulatory and judicial rulings continue to erode many of the barrier that were put in place to restrain competition among financial services firms.

Our goal now is to create a regulatory and legal environment in which: 1) consumers benefit from lower costs, better services and greater convenience; 2) financial services providers operate on a level playing field; 3) financial institutions can offer products and services without maneuvering through a maze of archaic laws; and 4) we protect the deposit insurance funds and safety and soundness. However, we don't simply want regulation to reflect the market realities of 1997. We want to create a framework in which US financial markets can innovate, evolve and compete well into the 21st century.

The Approach

Let me share with you our current thinking on several legislative changes we think should be considered.

First, we would propose to break down barriers that inhibit or prevent competition among various providers of financial products and services. We would permit banks, securities firms and insurance companies to affiliate with one another, reflecting the consensus that this reform is long overdue. These affiliations would help promote a genuine two-way street, one in which all participants have the opportunity to compete and innovate.

Second, we would give firms the choice to organize their financial activities in the most efficient way they see fit -- either as a subsidiary of a bank, or as an affiliate of a bank holding company regulated by the Federal Reserve Board. Banks would, if they took the subsidiary route, have to subtract from their regulatory capital 100% of any investment in subsidiaries that undertake activities not permissible for the bank itself, and banks would have to establish firewalls restricting certain transactions between the bank and its subsidiary. Safeguards like these -- which will be the same for subsidiaries as for holding company affiliates -- will protect banks and the federal deposit insurance funds from any risks posed by subsidiaries.

In establishing subsidiaries, banks could expand the range of financial products and services they offer, and diversify the sources of their earnings. In this respect, subsidiaries can help promote safety and soundness at banking institutions.

We should not and do not favor one form of corporate structure over another. But, by developing equal and consistent safeguards for subsidiaries and affiliates, we give companies the power to choose their structure for business, not regulatory, reasons. And let me emphasize: banks and the federal deposit insurance funds will be equally well protected under either format.

Third -- and perhaps the most difficult question in this debate -- is whether to permit companies that include banks to engage in non-financial activities, the so-called "banking and commerce" issue.

As we examined this issue, we recognized that people on all sides have strongly held views about this issue. There are, for example, some who believe that permitting broader affiliations between banking and commercial firms could have not only significant economic implications but also important cultural and social effects. Therefore, because of the nature of the issues and the complete lack of consensus, we think the issue needs to be further debated by Congress before settling on a final approach.

Consequently, we believe that Treasury can be most helpful in resolving this issue by providing two possible alternative legislative models.

Under the first model, Congress could decide to permit some modest measure of non-financial activity for bank holding companies. In such a case, it would be sensible to set a high threshold -- expressed in terms of gross domestic revenues -- to qualify the organization as predominantly financial. Under this model, Congress also could prohibit any affiliation between a bank and any of the 1,000 largest non-financial companies.

This alternative, would provide a basis for Congress to unify the regulation of banks and thrifts.

Under the second model, Congress may decide not to relax limits on non-financial activities of firms affiliated with banks, while as I've already said permitting bank holding companies to engage in the broad range of financial activities.

Under this alternative, the likely outcome would be for Congress to retain the separate thrift charter and the current rules relating to unitary thrift holding companies. While this alternative would not eliminate the current disparities between banks and thrifts, it does permit bank holding companies to engage in the full range of financial activity.

Let me now turn to the fourth item in our approach -- the creation of a new wholesale financial institution (so-called "woofies"). WFIs would be banks which accept only wholesale uninsured deposits, but they would not be considered banks for the purpose of holding company regulation. As chartered financial institutions with access to the payments system, they would be subject to prompt corrective action and other safeguards to ensure they don't pose a significant risk to the financial system. We would also require these banks to comply with the Community Reinvestment Act.

Lastly, we believe that we should move closer to a system of regulation by function, whereby specific financial activities would be regulated by the appropriate federal or state agency, regardless of where these activities are conducted. In this way, consumers would receive consistent regulatory protections. In the securities area, we would maintain and strengthen the important role of the Securities and Exchange Commission, without pushing current securities activities out of banks. With respect to insurance, we'd permit states to apply state laws to bank insurance activities as long as those laws were truly non-discriminatory. Finally, we would propose to create a council of financial regulators that would help resolve questions about the regulation of specific financial products.

Safeguards

With all these changes, of course, we must ensure that any and all financial modernization proposals are safe. In the past eight years, we've made great strides in restoring safety and soundness to our financial system. We're mindful of the S&L experience and are committed to avoiding anything of this sort again.

The Treasury approach would enhance existing consumer safeguards. We would provide for important disclosures -- in plain, straightforward terms -- so buyers can understand whether or not the products they purchase from financial services providers are insured.

For financial institutions, we believe that our proposal for expanded activities, which employs a "belt and suspenders" approach, is safe and sound because it provides even greater safety and soundness protections than current law. The expanded business opportunities we described

above are linked to greater protections for insured depository institutions. Banks would have to be well-capitalized -- the highest regulatory capital category -- and well-managed to qualify for broader affiliations. They would have to meet other important prudential safeguards that prevent subsidiaries or affiliates from weakening the depository institution.

And finally, this proposal comes with an absolute commitment to safeguard communities. This Administration will not tolerate any weakening of CRA in any legislation.

Benefits

In the past, when we have permitted greater competition in the financial services industry, consumers of financial products have benefited significantly. For example, after the New York Stock Exchange eliminated fixed commission rates in 1975, brokerage rates dropped by over 20 percent and an entire new industry -- discount brokers -- was created. From 1986 to 1989, as affiliates of banks began to underwrite municipal revenue bonds, issuers like local governments saved as much as $9 per $1000 of borrowed funds -- savings that could be passed on directly to taxpayers to help build roads, schools, hospitals and their communities.

Even more dramatic savings have accrued to consumers after the government has lifted barriers to competition in other industries.

As I mentioned earlier, the Bureau of Economic Analysis estimates that in 1995, American consumers spent nearly $300 billion on brokerage, insurance, and banking services. If increased competition from financial modernization were to reduce costs to consumers by 1 percent, that would be a savings of about $3 billion a year. Based on the efficiencies that could be realized from increased competition, it is plausible to expect ultimate savings to consumers of up to 5 percent from increased competition in the securities, banking and insurance industries -- as much as $15 billion per year. The bulk of these savings should come as financial services firms, driven by increased competition, adopt best-practices.

As I indicated earlier, the financial services industry is undergoing fundamental and dramatic change. The question we need to address is: what will be the rules of the road in the years to come? Will we rely on the old rules -- crafted primarily in the depth of the Depression -- or will we look forward to creating a legal and regulatory structure that will meet the needs of a dynamic and ever-changing system?

I share the views of many others who feel that the time has come to modernize the rules of our financial services system. Such a move, if done with due regard for safety and soundness, will benefit the broad range of users of financial services: consumers, small and large businesses, communities, and state and local governments. A more rational system, with a level playing field and appropriate safeguards, is in everyone's interest.

We look forward to working with the Congress on this important initiative in the time ahead.

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KEY PROVISIONS OF THE TREASURY'S FINANCIAL MODERNIZATION PROPOSAL

May 21, 1997

1. **FINANCIAL ACTIVITIES OF COMPANIES OWNING INSURED DEPOSITORY INSTITUTIONS**
   - Companies that own banks (bank holding companies) and meet certain qualifications would -- subject to certain safeguards -- be permitted to engage in any financial activity, including the full range of:
     - securities activities;
     - insurance activities;
     - investment advisory activities and mutual fund sponsorship; and
     - merchant banking.
   - Likewise, financial companies could own banks.

2. **FINANCIAL ACTIVITIES OF INSURED DEPOSITORY INSTITUTIONS AND THEIR SUBSIDIARIES**
   - National banks (and state banks to the extent permitted by state law) would be authorized, subject to certain safeguards, to conduct any financial activity through subsidiaries (except that national bank subsidiaries would not be authorized to engage in real estate development).
   - National banks would be permitted to engage in the full scope of activities that had previously been permissible for national banks or federally chartered thrifts (except investing in real estate development).
     - National banks (and state banks to the extent permitted by state law) would be permitted to act as general agents for the sale of insurance. National banks would be prohibited from engaging directly in insurance underwriting other than what is currently permissible (e.g., credit-related insurance).

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- National banks (and state banks to the extent permitted by state law) would be permitted to underwrite and deal in municipal revenue bonds in addition to other securities activities currently permissible in the bank.

3. **NONFINANCIAL AFFILIATIONS**
Two alternative approaches will be suggested:

- Under the **"basket"** approach (**Alternative A**), bank holding companies that derive some significant percentage (specified by Congress) of their gross revenues in the U.S. from financial activities could derive the remainder of their revenues from nonfinancial activities.
    - In addition to the "basket" limitation, we would suggest prohibiting any affiliation between a bank holding company and a nonfinancial firm having assets in excess of a specified amount (calculated to approximate the 1,000 largest nonfinancial companies).
    - The federal thrift charter would be eliminated after two years, and existing unitary thrift holding companies (which presently have no activity restrictions) would be given a grandfather exemption from the "basket" test (terminable upon a change of control).
- Under the **"financial-only"** approach (**Alternative B**), bank holding companies would not be permitted to engage in *any* nonfinancial activities.
    - The existing thrift charter would be preserved, and thrift holding companies would retain their current authority to engage in any lawful activity.

4. **CAPITAL PROTECTIONS AND OTHER SAFEGUARDS**

- The following safeguards would apply if a bank holding company or a subsidiary of a bank engaged as principal in activities not permissible for a national bank to engage in directly:
    - The bank would have to remain "well capitalized" -- that is, to be in the highest regulatory capital category, with capital exceeding normal requirements.
        - The bank would have to deduct from its regulatory capital the entire amount of its equity investment in any subsidiary engaged in such activities. Thus even if the investment were to be a total loss, the bank would still be well-capitalized.

  - The bank would have to be well-managed.

  - Any company controlling the bank would have to give an undertaking that if the bank's capital fell below the well capitalized level, it would be promptly restored.

- Existing limits on loans and other transactions between banks and affiliated companies (sections 23A and 23B of the Federal Reserve Act) would be extended to bank subsidiaries engaged in such activities. Thus any transactions between the bank and the subsidiary would have to be conducted at arm's length, could not exceed 10 percent of the bank's capital, and would have to be fully collateralized. (In addition, the bank's transactions with all affiliates, including the subsidiary, could not exceed 20 percent of the bank's capital.)

- Banks could not be held vicariously liable -- under the "piercing the corporate veil" theory -- for obligations of a subsidiary or other affiliate that the bank had not assumed.

  - Bank regulators would be specifically required to assure that banks observed principles of corporate separateness.

- Under **Alternative A**, banks would be prohibited from extending any credit to, or for the benefit of, any nonfinancial affiliate. (**Alternative B** would permit no nonfinancial affiliates.)

5. Federal Reserve Regulation of Holding Companies

- The Federal Reserve would continue to approve the formation of, and to supervise and regulate, all bank holding companies.

  - The Federal Reserve would be able to require financial reports from holding companies if they are not reasonably available from other sources. The Board would have access to information that was provided by the holding company or any of its units to other regulatory organizations.

- Federal Reserve examinations of a bank holding company would be limited, to the fullest extent possible, to holding company units that could have a materially adverse effect on the safety and soundness of a bank affiliate.

  - The Board would, to the fullest extent possible, make use of examination reports made by, or on behalf of, regulators of holding company units.

- The Federal Reserve would be permitted to set consolidated capital requirements for a bank holding company if:

- the holding company and the bank fell into size categories (to be defined) that could raise questions about systemic risk if problems were to arise;

- the holding company's insured depository institutions account for a predominant percentage (to be defined) of the holding company's total assets; or

- an insured depository institution owned by the holding company has been less than well capitalized for more than 90 days, and the holding company engages in activities not permissible for a national bank to engage in directly.

- Bank holding companies not meeting any of these criteria would presumptively be excluded from consolidated capital requirements, although the Board could impose such requirements (for an individual holding company or class of companies) if it determined that it was needed to avert a material risk to the safety and soundness of a subsidiary bank presented by unusual risk in the holding company's activities, or particular characteristics of its financial structure.

- Where the Federal Reserve did impose holding company capital requirements, it would be required to develop rules for excluding from the holding company's consolidated assets and capital: (1) the assets and capital of those company components subject to capital requirements of other regulatory authorities; and (2) the assets and capital of other company components capitalized in line with norms for firms engaged in the same line of business.

6. **THRIFT CHARTER, REGULATION, AND DEPOSIT INSURANCE**

- Under **Alternative A** (the "basket" approach to nonfinancial affiliations), there would be a two-year conversion period by the end of which all federally chartered thrifts would convert to bank charters, and all remaining state-chartered thrifts would be treated as banks for federal bank regulatory purposes.

    - OTS and OCC would be merged at the end of the conversion period.

    - The authority of unitary thrift holding companies to engage in nonfinancial activities would be grandfathered, and would terminate upon a change in control.

    - Each of the banking agencies would be required to adopt programs to promote housing finance and to accommodate the conversion of thrifts, including the development of guidelines that assured that former thrifts could continue to specialize in residential mortgage finance.

  - With the elimination of the OTS, the FDIC Board would be restored to its original three-member size.

  - The FDIC's Bank Insurance Fund (BIF) and Savings Association Insurance Fund (SAIF) would be merged.

- Under **Alternative B** (the "financial-only" approach to bank affiliations), the thrift system would be left as it is today.

  - OTS and OCC would be kept intact (although the prohibition against combining functions of the two agencies would be lifted).

  - No conversion of thrifts would be required, and unitary thrift holding companies would retain their diversified affiliation authority.

  - BIF and SAIF would be merged.

7. **WHOLESALE FINANCIAL INSTITUTIONS**

- Wholesale financial institutions (WFIs) could be chartered as either national banks or state member banks.

- WFIs would not have FDIC insurance and could not accept retail deposits.

- The OCC and Federal Reserve would supervise WFIs and set their capital requirements.

- Owners of WFIs would not be treated as bank holding companies, could therefore engage in any lawful business.

- WFIs would be subject to Community Reinvestment Act (CRA) requirements.

8. **FUNCTIONAL REGULATION OF INSURANCE AND SECURITIES ACTIVITIES**

- Insurance activities of banking organizations would be subject to normal state insurance regulations, if those regulations do not discriminate against financial institutions. States could not apply to national banks laws that had the purpose or effect of discriminating against, or had a disproportionately adverse effect on, financial institutions.

- Securities activities of banking organizations would be regulated as follows:

  - The Securities Exchange Act's exemption of banks from broker and dealer registration would be narrowed to permit SEC regulation of activities other than traditional banking activities.

- The SEC would be required to amend its net capital rule to avoid a *de facto* pushing out of broker-dealer activities from the bank.

- SIPC insurance would not apply to broker-dealer activities conducted in the bank.

- Products traditionally provided by banks would not subject to SEC broker-dealer regulation, and the primary banking regulator and the SEC could jointly exempt new banking activities.

- The Investment Company Act's application to banking activities would be updated and clarified. Banks' exemption from the Investment Advisers Act would be narrowed.

- The SEC, rather than the banking agencies, would handle registration of bank-issued securities and periodic reporting by banks having securities registered under the Securities Exchange Act of 1934.

9. CONSUMER PROTECTION

- The banking agencies, in consultation with the SEC, would be required to prescribe rules regarding banks' retail sales of nondeposit investment products, in order to avoid customer confusion about the nature and applicability of FDIC and SIPC insurance, and to protect against conflicts of interest and other abuses.

    - Such rules would address such matters as sales practices, qualifications of sales personnel, incentive compensation, and referrals.

- The rules would require simple, direct and understandable disclosures, such as the following:

  "NOT FDIC-INSURED OR SIPC-INSURED
  "NOT GUARANTEED BY THE BANK
  "MAY GO DOWN IN VALUE."

- Customers could prevent sharing of confidential customer information between banks and their nonbank affiliates.

- The National Council on Financial Services would periodically assess the effectiveness of such regulations, and could adopt regulations more stringent than those of the agencies.

10. National Council on Financial Services

- A National Council on Financial Services would be created.

- Among other functions, the Council would do the following:

    - Prescribe (under **Alternative A**) the method for applying the gross revenues test for measuring the extent of a bank holding company's financial activities;

    - Consider whether additional activities are financial;

    - Impose additional firewall restrictions, if determined to be necessary, between banks and their affiliates, including subsidiaries of banks;

    - Review the adequacy of consumer protections to determine whether modifications are needed; and

    - Resolve differences among the agencies on such questions as whether an activity is "financial," or whether a particular product or activity is insurance, securities, or banking.

11. Time Frame for Modernization

- Under **Alternative A**, modernization of bank activities and affiliations would occur two years after enactment. The two-year period would accommodate unification of the bank and thrift charters, as well as the respective federal regulators.

- Under **Alternative B**, the thrift system would remain intact. Thus modernization of bank activities and affiliations would begin nine months after enactment.

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FOR IMMEDIATE RELEASE
May 21, 1997

Contact: Paul Elliott
202-622-2960

TREASURY PROVIDES BLUEPRINT FOR FINANCIAL MODERNIZATION

Treasury Secretary Robert E. Rubin Wednesday unveiled the Clinton Administration's plan for modernizing the financial services industry; a step the Secretary said could save consumers up to $15 billion a year through improved efficiencies and increased competition.

"The stakes are high for the American consumer, businesses and entrepreneurs," Secretary Rubin said. "The goal should be to give consumers more choice, bring down the cost of financial services, and make them more convenient for customers. Just as important, this proposal comes with increased safeguards."

American consumers spent nearly $300 billion on financial services in 1995. Based on the efficiencies gained from increased competition from financial modernization, consumers could save up to 5 percent -- as much as $15 billion per year, Treasury estimates.

Secretary Rubin said the challenges to reforming the 1933 Glass-Steagall Act would be to create an environment that ensures a level playing field for financial service providers, gives businesses the ability to be innovative without a new layer of red tape, and protects the deposit insurance funds.

The Treasury plan includes:

- Breaking down of barriers that inhibit or prevent competition among various providers of financial products and services. Treasury supports permitting banks, securities firms and insurance companies to affiliate with one another.

- Giving firms the choice to organize their financial activities in the most efficient way they see fit -- either as a subsidiary of a bank or as a bank holding company.

- On the issue of "banking and commerce," Treasury will provide two alternative legislative models for debate and consideration.

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- Consumer safeguards would be protected and enhanced. We would provide for important disclosures -- in plain, straightforward terms -- so buyers can understand whether or not the products they purchase from financial service providers are insured.

- Safety and soundness protections would be strengthened. The expanded business opportunities will be linked to greater protections for insured depository institutions. Banks would have to be well-capitalized and well-managed to qualify for broader affiliations.

"The time has come to modernize the rules of our financial service system," Secretary Rubin said. "Such a move must be done with regard for safety and soundness to benefit the broad range of users of financial services: consumers, small businesses, communities, and state and local governments."

Secretary Rubin will provide the details of the Treasury Department's proposal on financial modernization to Congress during the first week in June.

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

CONTACT: Office of Financing
202/219-3350

TREASURY TO AUCTION 2-YEAR AND 5-YEAR NOTES
TOTALING $28,500 MILLION

The Treasury will auction $16,500 million of 2-year notes and $12,000 million of 5-year notes to refund $28,858 million of publicly-held securities maturing May 31, 1997, and to pay down about $350 million.

In addition to the public holdings, Federal Reserve Banks hold $1,128 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 $2,170 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 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.

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

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Attachment

RR-1702

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

May 21, 1997

Offering Amount	$16,500 million	$12,000 million
Description of Offering:		
Term and type of security	2-year notes	5-year notes
Series	AF-1999	G-2002
CUSIP number	912827 2V 3	912827 2W 1
Auction date	May 28, 1997	May 29, 1997
Issue date	June 2, 1997	June 2, 1997
Dated date	June 2, 1997	June 2, 1997
Maturity date	May 31, 1999	May 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	November 30 and May 31	November 30 and May 31
Minimum bid amount	$5,000	$1,000
Multiples	$1,000	$1,000
Accrued interest payable by investor	None	None
Premium or discount	Determined at auction	Determined at auction

The following rules apply to all securities mentioned above:

Submission of Bids:

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

Competitive bids . . . .
(1) Must be expressed as a yield with 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 Daylight Saving time on auction day

Competitive tenders . . . Prior to 1:00 p.m. Eastern Daylight Saving 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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May 22, 1997

TREASURY DEPUTY ASSISTANT SECRETARY FOR
COMMUNITY DEVELOPMENT POLICY MICHAEL S. BARR
HOUSE GOVERNMENT REFORM AND OVERSIGHT SUBCOMMITTEE
ON THE DISTRICT OF COLUMBIA

Mr. Chairman, Members of the Committee, thank you for the invitation to discuss the President's Plan to revitalize our Nation's Capital. I will briefly summarize the President's plan and then focus on one of its key elements -- how the President's plan will help spur economic development in the District of Columbia. After I conclude my remarks, I would be happy to answer any questions that you may have.

OVERVIEW

As you know too well, our Nation's Capital faces not only structural financial problems, but serious obstacles to providing the most basic services to its residents. The President has presented a plan to assume a number of responsibilities normally performed by states, in order to put our capital city on firmer financial ground and its prospects for success.

The plan is a first step, not a panacea. The District's government and Financial Authority will have to continue to do the hard work necessary to create a City where streets are safe, where children enjoy the quality education they deserve, where every resident has the chance to earn a decent living -- and where the City's government spends within its means.

Through the plan, the Federal government will assume over $4 billion of D.C.'s costs over the next five years, and will invest well over $1 billion in the District for economic development, transportation, criminal justice improvements, and tax collection. The plan would also end the annual $660 million Federal payment.

The plan is not a "bailout." All Federal assistance will be conditioned on the District taking specific steps to improve its budget and management. The plan will require the District to submit a balanced budget for 1998 and for each year thereafter, to continue to comply with the requirements

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of the Financial Responsibility and Management Assistance Act, and to take a number of specific reform steps in each area of the President's plan. Last week, the Council of the District of Columbia and the Mayor took an important first step in signing a Memorandum of Understanding with the Office of Management and Budget committing the District government to fulfill these requirements, including a requirement to implement timely and efficient zoning, permitting, and licensing processes by the end of FY 1998.

ELEMENTS OF THE PRESIDENT'S PLAN

The President's plan would help the District through four main elements:

First, under the plan, the federal government will take on major financial and managerial responsibilities that are beyond the financial capacity of the District and that are normally assumed by states. The Federal share of the District's Medicaid costs will increase. The Federal government will assume responsibility for the vast majority of the District's existing pension liabilities. The Federal government will take on responsibility for housing D.C. felons, offender supervision and services, prison construction, and funding (but not administering) District Courts. The U.S. Treasury will structure loans to assist the City in appropriately addressing its accumulated deficit.

Second, the Federal government will invest in improving the City's transportation infrastructure. It will take responsibility for the funding and oversight of certain National Highway System (NHS) capital projects -- including roads, bridges, and transit -- and NHS operations and maintenance projects in consultation with the District. A National Capital Infrastructure Fund (NCIF) for road, bridge, and transit projects will be established in FY1998 and continue through the end of FY 2003.

Third, the Federal government will provide technical expertise to help the city government become more effective in such areas as income tax collection, education and training, housing, transportation, and health care delivery.

Fourth, the plan will spur economic development in the Nation's Capital through new federal tax incentives and a new Economic Development Corporation -- or EDC. The remainder of my testimony will focus on this economic development component. But let me underscore that spurring economic investment and opportunity in the District is not limited to the economic development portion of the plan. All of the plan's elements, taken as a whole, will provide the District with a climate conducive to economic growth -- if they are combined with the continued efforts of District residents, the District government and Financial Authority to realize the fiscal sustainability, high quality services, good schools and safe streets upon which growth depends.

ECONOMIC DEVELOPMENT PLAN OVERVIEW

Drawing on the best practices of states and local communities throughout the country and extensive discussions with the District's business and community leaders, the Administration has

proposed several new tools for the District of Columbia to grow its economy and provide opportunities for its citizens by promoting private-sector investment and jobs. These tools include an Economic Development Corporation (EDC) which is designed to facilitate business expansion, and widely available tax provisions to ensure that the District's residents as well as its businesses have opportunities to participate in this expansion.

Economic Development Corporation

Central to the President's plan for the District's economic revitalization will be a new District of Columbia Economic Development Corporation, or EDC, whose mission, governance, powers and resources reflect both "best practices" nationally and the unique circumstances of the District. In cities and states throughout the nation business expansion is often facilitated by groupings of private and public economic development entities whose responsibilities range from the management of large-scale redevelopment projects to encouraging entrepreneurship in low-income communities. Successful economic development efforts, whether in places like Cleveland, Ohio or Tupelo, Mississippi, depend on the efforts of many entities working cooperatively to perform the tasks essential to promote their City's economic future.

In-depth assessments of the economic development efforts of the District of Columbia were undertaken by Treasury and OMB, as well as by private sector organizations such as the DC Agenda Project. These assessments came to the same conclusion: A key missing link in the Capital's ability to advance economically is private-sector driven economic development corporation to bring the city together behind an economic development strategy and to push that strategy to completion.

The EDC would provide a focal point for development. The EDC's mission would be to bring together the private sector, civic leaders and government to develop, market, and promote an economic development strategy for the District, facilitate longer-term and regional approaches to economic growth, help develop major projects to revitalize our Capital, and link the District, including its economically distressed areas, to local and regional growth opportunities.

The EDC created by the plan will provide the District with the type of organizational structure that other state and local governments have used effectively to stimulate economic growth in their communities. Development corporations, by bringing together the private sector, government, and civic leaders, can often overcome barriers to development that no single private sector firm could overcome on its own. For example, while a large retail business may be economically viable in a neighborhood if customers are drawn to the area by the presence of numerous other retailers, no one firm may be willing to make the first decision to locate there, in the absence of decisions by enough other firms. By bringing numerous interested parties together, development corporations can help overcome such market failures.

This package of federal tax incentives and the new Economic Development Corporation are designed to respond to the unique economic situation of the District of Columbia, while drawing on successful models around the country. Many states, including Virginia and Maryland, provide an

array of financing options, targeted tax incentives, loans, training, and other services to retain and attract businesses. The EDC was modeled on best practices from economic development corporations elsewhere in the nation, including the Baltimore Development Corporation, the Boston Redevelopment Authority, the Erie County Industrial Development Agency, the Kansas City Economic Development Authority, and the Philadelphia Industrial Development Corporation.

What these entities have in common is an ability to draw together the disparate interests in a community, lower barriers to development, and spur growth. They are governed by boards that can focus on long-term economic development strategy, and that represent the broader business and civic community. They use a variety of tools, including revolving loan funds, private activity bonds, eminent domain, and targeted tax incentives to catalyze economic growth. Finally, the experience of other development organizations suggests that in fulfilling the EDC's challenging missions, the EDC must work carefully to build experience and capacity over time.

EDC Mission. Building on work done by a number of private sector District groups, the EDC will develop an economic development plan, help implement large-scale development projects, support efforts to create jobs and business opportunities in the District, and connect District development to regional growth. We expect that the EDC will have five core missions:

Strategic Planning -- provide technical support and a forum for hard-nosed thinking about the District's longer-term economic opportunities and options;

Project Development -- participate with developers and investors in the planning and management of large-scale development projects that present significant economic growth opportunities for the city;

Business Promotion -- market the District and its region as potential sites for business investment, tourism, and other approaches to promote economic growth;

Link Distressed Communities -- facilitate linkages with D.C. residents, community based organizations and other entities, such as employment intermediaries and micro-loan programs, that can connect the residents of the District's economically distressed communities to economic opportunities available within the city and in the region, and;

Regional Action -- work with economic development organizations in surrounding suburban jurisdictions to implement win-win regional efforts, so that the entire region's economy benefits from cooperative regional economic development strategies.

EDC Structure. Under the proposal, the District of Columbia EDC will be governed by a nine member Board of Directors. The President will appoint five of the Board members in consultation with Congress, of which four will be selected from private sector businesses, and one will be selected from community based organizations. The Mayor, with the approval of the City Council, will appoint an additional member. There will be three voting, ex officio members, one each

selected by the President, the Mayor, and the City Council respectively. The EDC will be run by a Chief Executive Officer and served by a professional staff.

Federal Capitalization and Tax Incentives. As described more fully below, the EDC will be given the authority to spur development with federal tax credits for loans and investments in D.C. businesses, and to issue project revenue bonds, including new tax-exempt private activity bonds. Under the plan, Congress would capitalize the EDC with an investment of $50 million in FY 1998. The EDC would use these funds for planning, project development, investments, operating costs, and other statutory purposes. Of this amount, $20 million would be made available on a competitive basis to non-profit entities in the District for job creation. The EDC would also be required to conduct an independent evaluation of the efficacy of the tax incentives provided under this proposal, to ensure the effective use of federal tax dollars.

Expedited Approvals. The EDC will also have a number of other important powers, including eminent domain, the ability to seek expedited review by the District government of necessary permits, requests for land transfers, and the like. As part of the MOU with the Federal government, the District government has committed to achieve reforms with respect to permitting, licensing, and zoning by the end of FY 1998 and to cooperate fully with the EDC.

New Federal Tax Incentives for Jobs and Growth

The President's plan provides for $250 million in federal tax incentives to encourage business investment in the District and to foster job growth for District residents. A D.C. Capital Credit and new Private Activity Bonds will flow through the EDC to businesses. A new D.C. Jobs Credit and Additional Small Business Expensing will be available directly to D.C. businesses. Prudently used, these tax incentives could leverage over $1 billion in private sector investment in D.C. businesses. We are encouraged that Speaker Gingrich and Senate Majority Leader Lott have agreed to seek to include in balanced budget legislation the Administration's proposals for tax incentives designed to spur economic growth in the District of Columbia.

D.C. Capital Credit. The plan will authorize the EDC to allocate $95 million in federal tax credits for investors in, or lenders to, District businesses, for up to 25 percent of the amount invested or loaned. This incentive would be available for business investment throughout the District. Investors and lenders will compete for the credits, which will reduce the costs of capital for economic development projects throughout the District. The EDC will evaluate the long-term potential for the investment or loan to generate jobs for D.C. residents and to improve the D.C. tax base. The EDC will be given the authority to allocate the tax credits for loans and equity investments in much the same way that state economic development agencies and state housing agencies allocate tax-exempt private activity bonds and the low income housing tax credit. As a recent GAO study of the low income housing tax credit demonstrates, allocation of a federal tax credit by a state agency allows the credit to be efficiently targeted to meet local priorities within the broad federal policy goals established for the incentive.

Private Activity Bonds. The plan provides for the new EDC to issue a new category of tax-exempt private activity bonds to finance commercial and retail development projects in the District. Tax-exempt financing is traditionally used by state and local governments as a way to tap the public bond market as a source of capital. The new bond categories are tailored to the economic development needs of the District. The proceeds of the economic development bonds must be used to finance projects located in census tracts with poverty rates of 15 percent or more. Some 45 percent of the District's population and 37 percent of its land area are included in such census tracts. Businesses that benefit from this lower cost borrowing must employ a workforce at least 35 percent of which is made up of District residents. The bonds would be subject to the annual $150 million cap on the issuance of private activity bonds for the District of Columbia, half of which is directly allocated to the EDC under this plan. Although the bonds would be issued by the EDC, repayment would be secured by the revenues from the private businesses funded.

D.C. Jobs Tax Credit. The Plan provides for a D.C. Jobs Tax Credit, a 40 percent tax credit on the first $10,000 of eligible wages in the first year of employment, including employer-provided health care, child care, and educational assistance. The D.C. Jobs Credit would be available to District businesses that hire D.C. residents earning up to $28,500 a year who live in areas with 15 percent poverty or more, and other targeted D.C. residents. Over the next five years, tens of thousands of workers could benefit from higher wages or new jobs because of the D.C. Jobs Credit. The Jobs Credit will help expand private sector employment of D.C. residents, increase the tax base, reduce dependency on public assistance, and lower the costs of labor to D.C. firms.

Additional Small Business Expensing. The Plan provides for greater tax deductions to encourage the creation or expansion of small businesses in economically distressed neighborhoods, those with poverty rates of 15 percent or more. Eligible small businesses will be permitted to deduct (rather than capitalize over time) up to $20,000 in additional costs per year for certain equipment. This incentive will give a boost to small businesses, help revitalize D.C.'s neighborhoods, and create jobs for D.C. residents.

CONCLUSION

Mr. Chairman, that concludes my description of the economic development component of the President's revitalization plan for the District.

The President's plan is ambitious. It will benefit the City, the region, and the Nation.

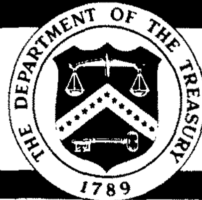
It benefits District residents by reducing the D.C. government's financial burdens, improving the delivery of City services, and investing in criminal justice, economic development, and transportation.

It benefits the region by strengthening the District's criminal justice system; by improving key components of the regional transportation infrastructure; and by fostering the City's economic recovery -- according to Professor Steve Fuller of George Mason University, for every dollar of additional economic activity in the District, its suburbs pick up $1.50 in new growth.

It benefits the Nation because it will help build a Capital city of which all Americans can be proud.

Mr. Chairman, that concludes my testimony.

DEPARTMENT OF THE TREASURY

TREASURY  NEWS

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TREASURY UNDER SECRETARY FOR
DOMESTIC FINANCE JOHN D. HAWKE, JR.
SENATE COMMITTEE ON BANKING, HOUSING
AND URBAN AFFAIRS

Mr. Chairman and Members of the Committee, I thank you for the opportunity to appear before you today to discuss implementation of the law that requires the federal government to make its payments electronically by January 1, 1999. This new law, which excludes only tax refunds, is of great importance to millions of Americans. I commend the Committee for the concern it has shown that this law be carried out in a manner that truly benefits all federal payment recipients. We share that concern, and we will keep it foremost in our thinking as we move forward in our rulemaking process.

This electronic funds transfer (EFT) initiative--what we refer to as "EFT '99"-- was enacted by the 104th Congress as part of the Debt Collection Improvement Act of 1996.

It includes four distinct elements:

- After July 26, 1996, federal payments to newly eligible recipients who have bank accounts must be made by EFT.
- Starting January 1, 1999, ALL federal payments -- again, other than tax refunds -- must be made by EFT
- Treasury is directed to ensure that all recipients who are required to receive payments electronically will, for that purpose, have access to an account at a financial institution at reasonable cost, and with the same consumer protections as other account holders at that financial institution.
- The Secretary is authorized to grant waivers based on recipient hardship or where otherwise necessary

Treasury was given these responsibilities because of its role as the government's bill payer. Last year, Treasury's Financial Management Service (FMS) issued over 850 million payments on behalf of non-defense agencies, including various kinds of benefits, federal salaries,

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tax refunds, vendor payments, grants and loans. Currently, 57% of our disbursements, or roughly 480 million payments a year, are made by EFT, most through the Direct Deposit program, which uses the commercial automated clearinghouses to transfer funds directly into a recipient's account. Sixty percent of all benefit payments are made electronically.

The goal of the Department of Treasury is to issue payments by a method that will provide the best service to recipients, the lowest possible cost to taxpayers, and the greatest amount of transaction security. Treasury has been issuing Direct Deposit payments for over two decades, and our experience is that EFT is substantially more convenient, cost-effective, and secure than paper checks.

Electronic funds transfer improves service to recipients because it is the most reliable method for the delivery of payments. Recipients are 20 times more likely to have a problem with a paper check than with an EFT transaction. Each year Treasury replaces over 800,000 checks that are lost, stolen, delayed or damaged during delivery. Waiting days for a replacement check is an inconvenience and burden on recipients, especially those living on low incomes. On the other hand, misrouted EFT payments are never "lost," and are typically routed to the correct bank account within 24 hours. The new law could eliminate over 1 million complaints annually associated with check payments.

EFT '99 will save taxpayers money. While our disbursement centers are extremely efficient, the cost of issuing checks is approximately 43 cents apiece, including postage, paper, and labor. By contrast, Treasury issues EFT payments at an average cost of just 2 cents. We estimate that full implementation of EFT '99 will save taxpayers approximately $500 million over 5 years in postage and check production costs alone. A substantial amount of these savings will accrue to the Social Security Trust Funds. Beyond these direct savings, there are also savings realized by relieving the payments system from the burden of paper processing -- savings that will ultimately be realized by consumers.

EFT '99 increases transaction security and significantly reduces opportunities for crime. On average, 75,000 Treasury checks per year are forged and fraudulently negotiated. These crimes are traumatic for the victims, and they cost the financial industry as much as $70 million annually. In comparison, EFT payments are extremely secure.

Mr. Chairman, I'd now like to share with you some information about who our federal payment recipients are and what these recipients have told us about their preference for electronic payments. I will also describe our efforts to provide low cost service to those recipients without bank accounts.

FEDERAL PAYMENT RECIPIENTS

Federal Payment Recipients With Bank Accounts

Most federal benefit payees -- 88%-- are recipients of Social Security Administration (SSA) benefit payments. Others receive payments from programs administered by the Department of Veterans Affairs and the Railroad Retirement Board. SSA estimates that 91% of all Social Security recipients currently have a relationship with a financial institution, and therefore could presumably receive payments by direct electronic transfer without undue hardship. Over 64% of all SSA benefit recipients already receive their payments by Direct Deposit.

Recipients who receive their benefits electronically praise its safety and convenience. Among the reasons they have given for choosing Direct Deposit are these:

- It is safer and more convenient than receiving a check in the mail and taking checks to the bank.
- Their money is deposited on schedule even if they happen to be sick or out of town and thus unable to cash a check.
- They are assured delivery.
- Many banks offer fee-free checking for Direct Deposit.

SSA has seen the rate of increase in Direct Deposit enrollment nearly triple the normal growth rate since the legislation went into effect on July 26, 1996. Clearly, more and more people are seeing the benefits of receiving payments electronically.

Federal Benefit Recipients Without Bank Accounts

It is estimated that eighteen percent of all federal benefit payment recipients -- approximately 10 million individuals -- do not have accounts with a financial institution. Fulfilling our mandate to assure these families access to an account at a financial institution, at reasonable cost, in order to receive electronic payments is perhaps the single most significant challenge Treasury is facing in the implementation of EFT '99. The law provides adequate time to address these issues carefully and ensures a smooth, well-planned transition for recipients and for payment-paying agencies

ACCESS TO REASONABLE COST ALTERNATIVES TO CHECKS

Treasury has already undertaken initiatives aimed at providing low cost alternatives to checks, including the development of a program called Direct Deposit Too. Direct Deposit Too is a model account, based on debit card access with no minimum balance requirement, that has been suggested to banks as a low cost alternative to traditional checking products. Treasury is considering other alternatives that are being reviewed with the benefit of substantial consumer outreach, consultation with the financial services industry, and research. Our objective is to balance the need for low cost banking services with the requirement for convenient access to

funds by those without bank accounts.

One of Secretary Rubin's top domestic policy goals is to encourage those without bank accounts to move into the financial services mainstream. Financial service providers offer many services that are critically important, if not essential, to virtually all American families. These may include access to federally insured deposits, the opportunity to earn interest on deposits, the availability of personal credit, and access to home mortgages. Some 40 million American households with incomes under $25,000 need these services. The programs described earlier are an attempt to assist those without bank accounts to transition into the traditional financial services world without sacrificing convenience or low cost.

TREASURY PRINCIPLES

In implementing the provisions of the statute, we believe the following principles should be observed:

- The transition from a paper-based system to an electronic transfer system should be accomplished with the interests of recipients ranking of paramount importance.
- Our objective should be to assure that we maximize private sector competition for the business of handling federal payments, so that recipients not only have a broad range of choice of payment services and service providers, but also that they receive their payments at reasonable cost, with substantial consumer protections, and with the greatest possible convenience, efficiency and security.
- All recipients, and especially those recipients having special needs -- the elderly, individuals with physical, mental or language barriers, those living in remote or rural communities -- should not be disadvantaged by the transition to electronic payments.
- The EFT '99 program should, to the maximum extent possible, seek to bring into the mainstream of our financial system, those millions of Americans for whom the system is as a practical matter not presently available.

These principles have and continue to serve as our guideposts as we move through the implementation process.

In our view, effective implementation of EFT '99 will depend on Treasury developing strong working relationships with and understanding of the concerns of the various program agencies, consumer groups, the financial industry, and other interested parties.

Treasury has been working with the agencies to identify and resolve the major issues confronting key stakeholders. Initial implementation focused on agency education and awareness, as well as development of agency implementation plans.

In addition, Treasury has held numerous meetings with representatives from consumer interest groups, financial service providers, and federal agencies to gather comments and discuss

issues related to mandatory EFT implementation. Our outreach efforts to consumer oriented organizations began in earnest with a meeting that I convened this past November. Since July 1996, Treasury representatives have met individually with eight different consumer groups. Treasury also held an EFT '99 consumer briefing and question and answer session, at which over 30 consumer groups were represented. Also, Treasury representatives met with 15 different financial service providers including financial institutions as well as non-bank entities. Since passage of the Act, Treasury has contracted for two major research studies related to the electronic payment mandate. One of the studies was a socioeconomic study designed to obtain information regarding the characteristics of federal benefit check recipients. The other study was designed to obtain information related to entities that might serve as intermediaries, payment methods, and needs for waivers that could be used in developing the regulations.

Another major initiative is our plan to conduct a comprehensive education and marketing program to ensure that there is sufficient information available to the public about the requirements of the mandatory EFT legislation. A nationwide campaign will encourage check recipients to convert voluntarily to electronic funds transfer in advance of the January 1, 1999 deadline. The campaign will use the best vehicles available to relay our message, and it will include the use of inserts with check payments. Treasury included such inserts in all federal benefit checks mailed in April of this year.

Treasury believes that the success of the mandatory electronic funds transfer program is dependent in large part on the involvement of the various affected parties in the rulemaking process. The interim rule we published on July 26, 1996, outlined the two phases of the conversion mandate and requested comments on both the interim rule and on issues related to implementation of the January 1999 mandate. We received 29 comments from consumer organizations, trade associations, federal and State agencies, banks and non-bank financial service providers, addressing such issues as the definition of authorized payment agent, consumer protections, services for those without bank accounts, costs to recipients and the need for waivers. These comments are being carefully considered and will be addressed in the proposed rule, which itself will invite additional comments.

As is apparent from this discussion, Treasury is confronted with a wide array of issues and concerns that must be addressed in order to satisfactorily implement the statutory mandate. I share your concern Mr. Chairman, that the price of the government making its payments electronically not be the imposition of unreasonable costs on the recipients of payments. The statute requires that this program be available at "reasonable cost" and we will accomplish that goal. The task before us is formidable and we are in the early stages of that process. We intend to work closely with all interested parties to develop an implementation strategy that, as best as possible, balances everyone's needs. In this regard, our current focus and most important task is the development and publication of a proposed rule to solicit public comment and policy guidance on this payment program. Let me reiterate: this is a proposed rule; it will leave a number of key questions unanswered; and we will actively seek input from the public on the proposed rule. None of these important issues have yet been finally decided.

CONCLUSION

In conclusion, Mr. Chairman, the Treasury Department believes that this legislative mandate provides an important opportunity for us to improve the quality of service that our customers want and need, and at the same time to lower the cost to taxpayers of our payments systems. We plan to enhance access and choice for recipients. Benefit recipients have told us that they want to be able to receive their payments at points that are easily accessible and that increase their safety and security if this can be done at a reasonable cost. Our proposed regulation will attempt to address these needs. We welcome, encourage, and look forward to the public comments that we will receive on our proposal, and we look forward to working with this Committee as we move forward.

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FOR RELEASE AT 2 P.M. (EDT)
May 22, 1997

STATEMENT OF
LAWRENCE H. SUMMERS
DEPUTY SECRETARY
DEPARTMENT OF THE TREASURY
BEFORE THE COMMITTEE ON COMMERCE
SUBCOMMITTEE ON COMMUNICATIONS
UNITED STATES SENATE

Mr. Chairman and members of the Committee:

I am pleased today to have this opportunity to present the views of the Treasury Department on the Internet Tax Freedom Act, S. 442. The Internet Tax Freedom Act would impose an indefinite moratorium on subnational taxation of the Internet, interactive computer services, and electronic commerce. The restrictions would not apply to income taxes, franchise taxes, and generally applicable sales and use taxes, administered in a neutral manner. The Secretaries of the Treasury, Commerce, and State, in consultation with other interested parties, would be required to study the domestic and international taxation of the Internet and electronic commerce and to develop appropriate policy recommendations. Finally, the Bill declares that it is the sense of the Congress that the President should seek bilateral and multinational agreements to establish that "activity on the Internet and interactive computer services is free from tariff and taxation."

Treasury fully supports the goals and underlying objectives of this Bill.

The growth of the Internet, and the resulting growth in electronic commerce, is one of the most exciting technological and business developments of our era. As President Clinton has said. "The day is coming when every home will be connected to it, and it will be just as normal a part of our life as a telephone and a television. It's becoming our new town square, changing the way we relate to one another, the way we send mail, the way we hear news, the way we play." The Administration's goal is that every school and library in the United States will be connected to the Internet by the year 2000.

The Internet, which is part of the "Information Superhighway" or Global Information

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Infrastructure, is not a single computer network or means of communication but instead refers to the convergence of previously separate communications and computing systems into an interoperable, global network of networks. The Internet has been described as

> a world-wide network of networks with gateways linking organizations in North and South America, Europe, the Pacific Basin and other countries . . . .The organizations are administratively independent from one another. There is no central, worldwide, technical control point. Yet, working together, these organizations have created what to a user seems to be a virtual network that spans the globe.

The Internet has grown from a computer network linking a handful of universities to a rapidly-growing worldwide network linking over 16 million computers that is used for education, commerce, and entertainment.

The Internet permits information to be created, transmitted and used at speeds and in ways never before imagined. Information is one of the nation's most critical economic resources, for service industries as well as manufacturing, for economic as well as national security. By one estimate, two-thirds of U.S. workers are in information-related jobs, and the rest are in industries that rely heavily on information. In an era of global markets and global competition, the technologies to create, manipulate, manage and use information are of strategic importance for the United States. Those technologies will help U.S. businesses remain competitive and create challenging, high-paying jobs. They will also fuel economic growth which, in turn, will generate a steadily-increasing standard of living for all Americans.

The Internet will have a significant impact on our lives in almost every area imaginable. Using the Internet and other elements of the global information infrastructure:

The best schools, teachers and courses will be available to all students, without regard to geography, distance, resources or disability.

The vast resources of art, literature, and science will be available everywhere, not just in large institutions or big-city libraries and museums.

Services that improve America's health care system and respond to other important social needs will be available on-line, without waiting in line, when and where you need them.

You will be able to live in many places without foregoing opportunities for useful and fulfilling employment, by "telecommuting" to your office through an electronic highway instead of by automobile, bus or train.

Small manufacturers will be able to get orders from all over the world electronically — with detailed specifications — in a form that the machines will use to produce the necessary items.

You will be able to see the latest movies, play the best video games, or bank and shop from the comfort of your home whenever you chose.

You will be able to obtain government information directly or through local organizations like libraries, apply for and receive government benefits electronically, and get in touch with government officials easily.

Individual government agencies, businesses and other entities all will exchange information electronically — reducing paperwork and improving service.

The growth of electronic commerce —the ability to perform transactions involving the exchange of goods or services between two or more parties using electronic tools and techniques — is one of the most exciting aspects of the Internet. Electronic commerce will play a significant role in our economy in the years and decades to come. Electronic commerce will provide an integrated collection of low-cost, reliable services to handle tremendous volumes of business and technical transactions and to amass, analyze, and control large quantities of data. Organizations will be able to improve efficiency and accuracy, and reduce costs, while providing faster, more reliable, and more convenient services. U.S. companies will be able to reengineer their business processes, and then use the Internet to realize the productivity potential of their current and future information technology investments. Smaller firms will be able to enter and participate at lower cost and with greater efficiency in new markets, and larger firms will be able to evaluate, select, and more readily work with other companies. New ways of doing business and new forms of economic activities will become commonplace, including telecommuting, global sourcing arrangements, new training and education capabilities, and disaggregated alliances or networks of companies.

Already, millions of dollars of goods are being bought and sold over the Internet every day and although forecasts vary, electronic commerce could account for tens of billions of dollars in sales by the year 2000. Electronic commerce is exciting because it allows businesses, both big and small, to do businesses around the clock and around the world. For example, industrial companies are now buying billions of dollars of goods annually from their suppliers on-line and many of these purchases are from small suppliers that they had not previously dealt with. Computer-equipment manufacturers are selling billions of dollars of products annually. And a one-woman book shop specializing in hard-to-find needlework books is now doing business with customers all over the world as a result of the Internet. This is just the beginning and as entrepreneurs develop new businesses and scientists create new technologies, electronic commerce will continue grow in ways that we cannot now imagine.

In order to encourage the growth of this technology and the resulting social and economic benefits, it is crucial that government take a responsible role toward regulating and taxing the Internet. In the realm of international taxation, the Administration's key objectives are: no new Internet taxes, neutrality in taxing electronic commerce as compared with economically similar

transactions and above all, no tax rules at the national international, federal or subfederal levels which inappropriately impede the full developments of these exciting new technologies.

Treasury has been a leader in adapting international tax rules to electronic commerce. In November 1996, Treasury published *Selected Tax Policy Implications of Global Electronic Commerce*, an issues paper which set forth both the major international tax issues created by electronic commerce and the general tax policy principles that will be applied in this area. This paper has been very well-received and has been widely read both in the United States and abroad. The paper requested comments on the issues raised and these comments will be used in formulating specific administrative guidance and any necessary legislative proposals. Treasury has also been active in the work of the Organization for Economic Cooperation and Development, which has been at the forefront in developing international rules in order to achieve our mutually desired objectives.

In addition to Treasury's efforts, the administration as a whole is committed to encouraging the growth of electronic commerce. We recognize that the success of electronic commerce will require an effective partnership between the private and public sectors. Government participation will be coherent and cautious, avoiding the contradictions and confusions that can sometimes arise when different governmental agencies individually assert authority too vigorously and operate without coordination. For the past year, Ira Magaziner, Senior Advisor to the President for Policy Development, has been leading an interagency working group that is developing a set of principles to guide government's role in promoting electronic commerce. These principles deal with financial issues, such as tariffs, taxation and electronic money; legal issues, such as a "Uniform Commercial Code" for electronic commerce, intellectual property protection, privacy, and security; and market access issues, such as telecommunications infrastructure and information technology, content regulation, and technical standards. These principles, which are contained in a document titled *A Framework For Global Electronic Commerce*, were released in draft form last December and are expected to be finalized shortly.

While recognizing that government has an important role to play, we also recognize that the private sector must lead this growth. Furthermore, as stated in the draft *Framework for Global Electronic Commerce,* "Innovation, expansion of services and participants, and lower prices will depend upon the Internet remaining a market-driven arena, not one that operates as a regulated industry." Government's role should be limited to extending appropriate regulatory policies to the Internet and electronic commerce. For example, businesses need to know that contracts entered into on-line are valid, consumers need to know that goods and services purchased on-line are subject to consumer protection laws, and government needs to know that the Internet is not being used to further criminal activity. This must be accomplished while recognizing the unique qualities of the Internet and electronic commerce.

In this context, we note that section 5 of the bill states that it is the sense of the Congress that the President should seek multilateral agreements through the World Trade Organization, the

Organization for Economic Cooperation and Development (OECD), the Asia Pacific Economic Cooperation Council, or other appropriate international fora to establish that activity on the Internet and interactive computer services is free from tariff and taxation. The Administration is already working to achieve these goals. In the tax area, Treasury is currently working in the OECD to develop neutral and uniform principles for the taxation of electronic commerce. With regard to tariffs, the United States Trade Representative will advocate in appropriate international fora, such as the World Trade Organization, that the Internet be declared a tariff-free environment whenever it is used to deliver products or services.

One of the most important areas in which government must adopt appropriate rules is in the field of taxation. Unreasonable taxation of the Internet, or even the fear of unreasonable taxation, could be a significant impediment to the growth of the Internet and electronic commerce. Some are tempted to view the Internet as a source of new tax revenues. We believe this strategy will be counterproductive in the long-term. The Internet has a major role to play in ensuring the continuing vitality of our economy and our global competitiveness. The imposition of new taxes that are limited to the Internet or electronic commerce will inevitability discourage the growth and use of the Internet. While new taxes will raise some revenue, they will impede the growth of the economy. Instead of seeking to impose new taxes on the Internet, we should encourage the growth and use of the Internet, which will result in a growing economy and greater revenues from existing taxes.

Therefore, Treasury is opposed to any new taxes specifically imposed on electronic commerce, whether imposed by other countries or at either the federal or subfederal level. This position is also shared by many of our major trading partners. Although proposals have been made for a European "bit tax," these proposals have been rejected. For example, EC Commissioner Mario Monti recently stated that he sees no need for a "bit tax" because the tax burden on electronic commerce should not be heavier than the tax burden on traditional commerce — confirming our neutrality concept.

Instead of enacting new taxes on the Internet or electronic commerce, Treasury believes that neutrality should be the fundamental principle guiding the development of tax rules in this area. Neutrality requires that the tax system treat economically similar transactions equally, regardless of whether such transactions occur through electronic means or through more conventional channels of commerce. Ideally, tax rules should not affect economic choices about the structure of markets and commercial activities. This will ensure that market forces alone determine the success or failure of new commercial methods. The best means by which neutrality can be achieved is through an approach which adopts and adapts existing principles — in lieu of imposing new or additional taxes. In addition, tax rules should be uniform across jurisdictions, so as to minimize the possibility of multiple or no taxation and these rules should be transparent and easy to administer.

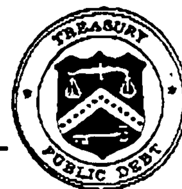
Adapting existing tax rules to deal with electronic commerce raises a number of novel issues in international, federal and local income taxation because all systems must seek to

allocate taxing jurisdiction over income that crosses jurisdictional boundaries. The relevant tax rules generally require that income first be classified as to type and then this classification is used to assign a geographical source to this income. The jurisdiction of source generally has a right to tax income arising within it although in many cases this right to tax is ceded to the country in which the person earning the income resides. Income derived from electronic commerce poses a number of problems under this traditional framework. In the world of electronic commerce, it is often difficult, if not impossible, to link an item of income with a specific geographic location. Therefore, traditional source rules become more difficult to apply. In addition, electronic commerce often involves income from "digitized information," i.e. information expressed in the binary format of ones and zeros. This type of income can be difficult to classify under traditional rules, which were developed for an economy based on manufacturing. Treasury is working to resolve these issues in the international arena and it looks forward to working with the states to resolve these issues at the state level. However, Treasury recognizes that the implementation of basic principles of tax policy may vary at the state level.

The goals of the Internet Tax Freedom Act are consistent with the general tax policy principles I have described. The Act would prohibit new state or local taxes specifically imposed on the Internet or electronic commerce, while income derived from and transactions effected through electronic commerce would remain subject to existing taxes, neutrally applied. The bill would also require the Administration to establish a consultative group to develop policy recommendations on the taxation of electronic commerce, so that existing taxes can be applied in a neutral and uniform manner. Treasury wholeheartedly supports the goals and underlying objectives of the Internet Tax Freedom Act and we are prepared to work with the Committee in order to assure the realization of our shared objectives.

AUCTION RESULTS

PUBLIC DEBT NEWS



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

FOR IMMEDIATE RELEASE
May 22, 1997

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 52-WEEK BILLS

Tenders for $13,777 million of 52-week bills to be issued May 29, 1997 and to mature May 28, 1998 were accepted today (CUSIP: 9127944V3).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	5.53%	5.85%	94.409
High	5.56%	5.89%	94.378
Average	5.55%	5.88%	94.388

Tenders at the high discount rate were allotted 11%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$48,015,258	$13,777,108
Type		
Competitive	$46,636,000	$12,397,850
Noncompetitive	1,099,258	1,099,258
Subtotal, Public	$47,735,258	$13,497,108
Foreign Official Institutions	280,000	280,000
TOTALS	$48,015,258	$13,777,108

An additional $1,190,000 thousand of bills will be issued to foreign official institutions for new cash.

In addition, $5,840,000 thousand was awarded to the Federal Reserve Banks for their own accounts.

5.54 -- 94.398

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DEPARTMENT OF THE TREASURY

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EMBARGOED UNTIL 9:30 A. M.
Remarks prepared for delivery
May 27, 1997

DEVELOPMENT OF AFRICA'S PRIVATE SECTOR: SOME NEW APPROACHES BASED ON OLD TRUTHS

KEYNOTE ADDRESS BY LAWRENCE H. SUMMERS
DEPUTY SECRETARY OF THE U.S. DEPARTMENT OF THE TREASURY
SYMPOSIUM ON PRIVATE SECTOR DEVELOPMENT
ABIDJAN, COTE d'IVOIRE

Mr. Kabbaj, Minister N'Goran, Mr. Qureshi, ladies and gentlemen, distinguished guests, I am glad to have the chance to speak at this important symposium on private investment in Africa. It is the right time for such a discussion. There is perhaps more room for well grounded optimism about economic development in Sub-Saharan Africa than at any time in a generation. Old leaders and old ideas are giving way to new leaders with the new idea that the nations of Africa can best tap the energies of their people by relying on markets, integrating with the global economy, and running hard in the global race to attract capital.

This is not just rhetoric. The best growth figures in two decades for the region as a whole, growth rates at or approaching double digits in some countries, and rising investor interest as evidenced by attendance at these meetings are all good signs. Africa's commitment to reform has been and will be met with a strong response from the world. Investors are more prepared to put money into developing countries today than at any time in nearly a century. And the recent proposals to shift U.S. policy and the prominent role African issues will receive at the Denver Summit, suggest that industrialized country governments are determined to reinforce the market in Africa.

In my remarks today, I want to consider what the history of economic development over the last 30 years can teach Africa, and what it can teach the international development community concerned with promoting private sector-led growth in Africa. For it is these lessons that shape the new approach to African development that the United States has recently announced and that we will be promoting internationally over the next several years.

RR-1707

I. Why has African economic growth lagged?

As promising as the performance of Sub-Saharan economies has been over the last two years, and even though there are a number of countries that have achieved good results over longer intervals, including Botswana, Mauritius, Uganda, Ghana, and our Ivoirian hosts, it must be acknowledged that African economic performance over the last 25 or 30 years has been profoundly disappointing. Disappointing by the standard of the goals that African governments set for themselves, by the standard of performance compared to the rest of the world, and by the harsh standard of the basic ability to maintain even a constant living standard for a growing population.

In the 1960s, Sub-Saharan Africa's per capita income was on a par with East Asia's. In 1995, average per capita income was still just $490, and 262 million people lived on just $1 a day. Korea and Taiwan are now about 30 times as rich on a per capita basis than the Sub-Saharan African average, Malaysia about 10 times richer, Thailand about 6 times. Development indicators reflect this enduring poverty, with infant mortality of the region, at 92 per 1000 in 1994, the highest in the world, versus 35 in East Asia. Today, on the brink of a new millennium, in large parts of sub-Saharan Africa a child is more likely to be malnourished than to learn to read, and more likely to die before the age of 5 than to go to secondary school.

The stark differences between levels of development in Africa and in other developing countries reflect many years in which growth rates in Africa have lagged badly. During the 1980s, per-capita growth in Africa lagged growth in other developing countries by 5 percent -- this figure actually increased to 6.2 percent during the first part of the 1990s. Growth performance has been so poor that standards of living in sub-Saharan Africa as measured by consumption per capita have declined by almost one-fourth since 1980.

The African growth record has now been studied carefully by economists and other scholars working at the international financial institutions, government aid ministries, and universities. Statistical studies have explored the determinants of growth. Case study analyses have contrasted the experience of particular countries in Africa with particular countries in other regions. While there are differences between different analyses, a striking degree of consensus has emerged. It points to three primary factors in explaining Africa's disappointing performance.

-- First, basic political stability is a prerequisite for growth. Nearly 15 percent of the population of Sub-Saharan Africa lives in countries that were severely affected by civil war during the 1990s. A much higher fraction lives in countries where investors cannot be confident of a stable political

environment and where as a consequence property rights are inherently insecure. It is noteworthy that Africa's standing has deteriorated both relatively and absolutely on international scales of political risk.

-- Second, the lack of macroeconomic stability is inimical to growth. While inflation rates have come down in the last several years, inflation rates in many African countries have been well into double digits for much of the last two decades. And the damage they do has been compounded by financial repression.

-- Third, policies that grossly distort the allocation of resources make growth impossible. These policies include but are not limited to export taxes, high tariff and non-tariff protection, subsidized parastatal inputs, and government-set purchase prices for agricultural products. In some countries it has been estimated that as much as 1/4 of manufacturing output actually involves negative value added. Of the policies that distort resource allocation, a growing body of evidence suggests that the most serious are those which interfere with integration with the rest of the world economy.

In a recent study, Paul Collier of Oxford University and Jan Willem Gunning look at the performance of countries that have avoided the three pitfalls of civil war, macroeconomic instability, and gross resource allocation. They find that only about 1/4 of sub-Saharan Africa's population lives in countries that avoided these pitfalls in 1995, but that this group averaged 3.2 percent per-capita growth.

This point bears emphasis because it implies that when conditions are right African countries can grow rapidly. The difficulty of tropical agriculture, closed world markets, and high debt burdens are not adequate excuses for slow growth. Indeed, the various special factors often suggested for why Africa can only grow slowly, need to be balanced against the substantial potential represented by the large gap between Africa's current and previously achieved level of productivity.

II. Lagging Performance Despite Availability of Foreign Resources

Whatever the problems of growth in Africa, they cannot be traced to lack of official external support. Aid flows represented 12.4% of Sub-Saharan Africa's GNP in 1994, according to the 1996 World Development Report, and this figure represents a decline from that of earlier years. Relative to GDP, external aid has been nearly five times as important in Africa as in other parts of the low-income world. Where Africa has fallen down is in the worldwide race to attract private capital. In

1996, sub-Saharan Africa received $15 billion in official development finance but only $12 billion in private capital flows. In contrast, Latin America received only $4 billion in private capital but attracted $73 billion in private capital.

Recently a number of analyses have looked at the impact of aid flows using a number of different methodologies. A consistent pattern has begun to emerge. Without political stability, macroeconomic control, and reasonably functioning markets, aid is at best ineffective. The capital stock per worker in Africa today is lower than it was in 1965. It is noteworthy that on one set of estimates, African wealth owners have invested 37 percent of their wealth outside Africa. If Africa could hold its residents' capital as well as Asia, its stock of productive capital would be 50 percent greater.

Aid to governments pursuing the wrong policies can actually be counter-productive. It may encourage public investment that crowds out private investment. It allows governments to postpone painful steps necessary to gain credibility. It can lead to overvalued exchange rates which interfere with the development of export sectors. And it can lead to the accumulation of unsustainable debt burdens. These are not just hypothetical possibilities. Studies at the World Bank by Burnside and Dollar have suggested that in distorted policy environments, aid has actually slowed growth.

More aid cannot be the key to sustainable rapid growth in Africa. Instead, what we have seen around the world is that countries prosper when they earn their external resources by adding value and exporting, or by creating an alluring environment for private capital. This has been the key to success in Asia, in Chile, and in the African success stories. Sub-Saharan Africa will not take off if it continues to attract only 2 percent of the flow of private capital to developing countries, as it has in recent years.

III. New Approaches to U.S. Policy

The powerful examples of growth based on market reforms in Mauritius, Botswana, Uganda, Ghana and here in Cote D'Ivoire, in the context of the discouraging results of official development finance during the last 25 years, suggest to me that durable economic development can only come as a consequence of proper domestic policies that create the right kind of environment for private investment, both domestic and foreign.

Last month, the Clinton Administration proposed a new 'Partnership for Economic Growth and Opportunity' to our Congress for consideration. The partnership is not another donor-inspired

'Africa Initiative', as some may see it. Rather, it is our response to the initiatives that African governments are taking.

We start from the lessons of recent development history. The partnership we propose emphasizes selectivity, the importance of international integration, private capital over official grants, and the role of markets in driving development. The partnership we've proposed is not a panacea, nor does it pretend to address the full range of Sub-Saharan Africa's many development challenges. Its core ideas are, first, that the reforms countries undertake bring their own rewards, and, second, that the best way the United States can support those countries is by making trade and investment -- not just aid -- the centerpiece of our economic relations. It contains these elements:

1. Expanded market access.

To encourage further trade with the United States, we will offer better access to U.S. markets for African exports under a renewed and expanded GSP program. This will increase the number of products that can enter the United States duty free from about 4000 to about 5,800. For those countries ready to embark on bold trade reforms, we have also proposed to Congress an expansion of access to our market for several sensitive products such as textiles and leather goods. And in the future, as appropriate, the United States will be open to pursue free trade agreements with the strongest-performing, most growth-oriented Sub-Saharan African countries.

2. Investment.

To encourage investment, the U.S. Overseas Private Investment Corporation will launch a $150 million equity fund to support commercial and natural resource development projects. The Fund will be based in Africa and will have the flexibility to invest in projects throughout Sub-Saharan Africa. A second OPIC fund, to be capitalized at $500 million, is being prepared and will focus on infrastructure development. Countries pursuing the deepest market-oriented reforms are likely to capture the lion's share of the investments.

3. Sharpening the focus of existing U.S. programs.

-- USAID is focusing its development activities in Sub-Saharan Africa to support trade and investment. The Initiative for Southern Africa will devote up to $25 million annually to promote trade and transportation protocols, harmonization of investment policies, and strengthening regional business associations within the Southern Africa Development Community.

-- USAID will provide additional technical assistance to governments in Sub-Saharan Africa to help them take advantage of the trade preference programs to be made available, and so that reforming countries become more fully engaged in the World Trade Organization.

-- The U.S. Export-Import Bank will work with credit-worthy private companies in Africa to structure asset-backed and project finance deals even where the public sector is not deemed credit-worthy.

-- Commodity assistance under the Department of Agriculture's PL-480 program will be targeted at the countries in Sub-Saharan Africa taking the boldest steps to reform, but the assistance will be channeled to countries on a market basis, to promote private sector distribution channels and well-functioning commodity markets within recipient countries.

4. Debt relief to restore financial viability.

Debt relief is essential if Sub-Saharan African countries are to overcome the legacy of failed development policies and sustain private sector-led growth. Recognizing this, we in the United States have led the effort to establish multilateral debt relief for the Heavily Indebted Poor Countries -- often called the HIPC initiative. We are now taking a stand at the World Bank and IMF to provide maximum relief for eligible countries pursuing strong reforms within the program's framework.

We've already agreed that Uganda should be the first beneficiary of the program, and I want to congratulate President Museveni and his economic team for their sustained record of reform that earned their country first place in the HIPC queue. The deal reached just this month will mean that about $340 million in tax revenues that would otherwise go to creditors will be available for investment in other areas, such as education of Uganda's children. A number of other African countries should soon be in train for such debt relief.

The President has also decided to seek appropriations that would make possible not just the reduction but the extinction of bilateral concessional debts that eligible reformers in Sub-Saharan Africa may still have to us.

5. A Dialogue Among Economic Officials

Finally, we recognize in the United States that if we have aspirations to reorient our economic relations with sub-Saharan African countries to create stronger trade and investment links, we need to ensure that our government's officials who meet with their African counterparts are not just those of our aid agency.

Our Trade Ministries, our Commerce Ministries, and our Finance Ministries must also work together. To this end, the Clinton Administration will be holding annual ministerial-level meetings with selected African countries undertaking bold reforms.

IV. Conclusion

In my remarks, I have concentrated on the requisites for private investment. In part, this is because of the subject of this conference and the thrust of the policy reorientation that we are pursuing in the United States. But it is also because I am convinced that African countries that are able to create an environment that attracts private capital will also have created an environment favorable to sustained growth.

Tomorrow in my remarks to the African Development Bank annual meeting, I will focus on the many challenges facing the public sector in Africa, everything from educating a growing population to combating AIDS, to regulating banks, to maintaining civic order. And I will reflect on the role of external assistance in these and other areas, discussions taking place between the G-7 and the Bretton Woods Institutions, and what we see as the appropriate role for the AfDB. These institutions obviously have a critical contribution to make.

But the most important external judgement determining Africa's economic future will not be made by my government or any other one. Nor it will be made on either side Washington's 19th street by the IMF or the World Bank. It will be made by people like those in this room as they decide where to put their money. And that money will follow those who are helping themselves.

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DEPARTMENT OF THE TREASURY

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EMBARGOED UNTIL 2:30 P.M.
May 27, 1997

CONTACT: Office of Financing
202/219-3350

TREASURY'S WEEKLY BILL OFFERING

The Treasury will auction two series of Treasury bills totaling approximately $15,000 million, to be issued June 5, 1997. This offering will result in a paydown for the Treasury of about $4,800 million, as the maturing publicly-held weekly bills are outstanding in the amount of $19,807 million.

In addition to the public holdings, Federal Reserve Banks for their own accounts hold $7,439 million of the maturing bills, 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 $3,727 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.

oOo

Attachment

RR-1708

HIGHLIGHTS OF TREASURY OFFERINGS OF WEEKLY BILLS
TO BE ISSUED JUNE 5, 1997

May 27, 1997

Offering Amount	$7,500 million	$7,500 million
Description of Offering:		
Term and type of security	91-day bill	182-day bill
CUSIP number	912794 5L 4	912794 5W 0
Auction date	June 2, 1997	June 2, 1997
Issue date	June 5, 1997	June 5, 1997
Maturity date	September 4, 1997	December 4, 1997
Original issue date	March 6, 1997	June 5, 1997
Currently outstanding	$13,096 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 Daylight Saving time on auction day

Competitive tenders . . . . Prior to 1:00 p.m. Eastern Daylight Saving 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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TREASURY TO AUCTION CASH MANAGEMENT BILLS

The Treasury will auction approximately $30,000 million of 14-day Treasury cash management bills to be issued June 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-1709

HIGHLIGHTS OF TREASURY OFFERING OF 14-DAY CASH MANAGEMENT BILL

May 27, 1997

Offering Amount . . . . $30,000 million

Description of Offering:

Term and type of security .	14-day Cash Management Bill
CUSIP number	912794 6Z 2
Auction date	June 2, 1997
Issue date	June 3, 1997
Maturity date	June 17, 1997
Original issue date	June 3, 1997
Currently outstanding . . .	---
Minimum bid amount	$10,000
Multiples	$1,000
Minimum to hold amount . . .	$10,000
Multiples to hold	$1,000

Submission of Bids:

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

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

Maximum Recognized Bid at a Single Yield . . . 35% of public offering

Maximum Award . . . . 35% of public offering

Receipt of Tenders:

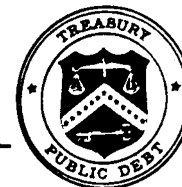
Noncompetitive tenders . . Prior to 11:00 a.m. Eastern Daylight Saving time on auction day

Competitive tenders . . . . Prior to 11:30 a.m. Eastern Daylight Saving 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



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FOR IMMEDIATE RELEASE
May 27, 1997

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for $7,553 million of 13-week bills to be issued May 29, 1997 and to mature August 28, 1997 were accepted today (CUSIP: 9127945K6).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	5.02%	5.16%	98.731
High	5.03%	5.16%	98.729
Average	5.03%	5.16%	98.729

Tenders at the high discount rate were allotted 55%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

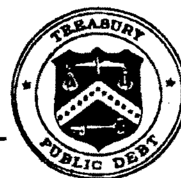
	Received	Accepted
TOTALS	$38,991,542	$7,553,476
Type		
Competitive	$37,022,198	$5,584,132
Noncompetitive	1,377,044	1,377,044
Subtotal, Public	$38,399,242	$6,961,176
Foreign Official Institutions	592,300	592,300
TOTALS	$38,991,542	$7,553,476

In addition, $3,671,180 thousand was awarded to the Federal Reserve Banks for their own accounts.

RR-1710

AUCTION RESULTS

PUBLIC DEBT NEWS



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FOR IMMEDIATE RELEASE
May 27, 1997

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for $7,535 million of 26-week bills to be issued May 29, 1997 and to mature November 28, 1997 were accepted today (CUSIP: 9127945V2).

RANGE OF ACCEPTED
COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	5.25%	5.47%	97.331
High	5.27%	5.49%	97.321
Average	5.26%	5.48%	97.326

Tenders at the high discount rate were allotted 19%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$43,737,122	$7,534,682
Type		
Competitive	$39,664,365	$3,461,925
Noncompetitive	1,072,757	1,072,757
Subtotal, Public	$40,737,122	$4,534,682
Foreign Official Institutions	3,000,000	3,000,000
TOTALS	$43,737,122	$7,534,682

An additional $299,900 thousand of bills will be issued to foreign official institutions for new cash.

In addition, $3,185,000 thousand was awarded to the Federal Reserve Banks for their own accounts.

RR-1711

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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Remarks prepared for Delivery

May 28, 1997

A New Partnership for an Emerging Africa
Lawrence H. Summers
Deputy Secretary of the Treasury
Annual Meeting of the African Development Bank Group
Abidjan, Cote d' Ivoire

Good afternoon. President Kabbaj, distinguished governors, and honored guests. I'm very pleased to return today to Abidjan, four years after my first address to an African Development Bank meeting.

This is a different Africa than the one I visited four years ago. Per capita incomes are growing again, at a more rapid rate than a decade ago. A majority of countries in Africa are enjoying rising standards of living. Democracy continues to spread. Private capital flows are rising and investment conferences like the one held here yesterday are drawing standing room only crowds. In South Africa, a new government is bringing new hope to the entire region, while recent events in the center of the continent offer new reasons for optimism.

A new generation of leaders is emerging, shaped by some basic truths: there can be no enduring economic progress in the face of war and civil strife; macroeconomic instability is the enemy of economic growth; and financial repression and severe public resource misallocations stifle private sector initiative. These are precisely the obstacles that have suppressed progress in Africa for far too long. Without them African economies could grow as fast as any in the world.

This is the basic conviction underlying America's commitment to a new engagement with Africa. The specific focus of President Clinton's new initiative for private trade and investment builds on the principle of helping those helping themselves, and the demonstrated fact that resources flowing from value added exports and private capital are a much more potent impetus for growth than foreign aid that does not meet a market test.

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President Clinton has also put Africa prominently on the agenda of the Economic Summit in Denver. In addition to support for deep debt relief, we are asking the international financial institutions to reexamine how they might more effectively support countries in their search for better growth through better policies. Secretary Rubin, on behalf of his G-7 colleagues, has specifically asked the IMF and the World Bank to prepare a reinforced strategy to spur growth in Africa: additional concessional finance where bold structural reforms lead to greater financing needs; more aggressive support for primary health and education; and, financing for the infrastructure improvements needed to support private sector led growth.

Of course, meeting the challenge of enduring development in Africa is about much more than raising economic growth. It is also very much about educating a school age population whose size doubles every generation, combating the scourge of AIDS and debilitating diseases, safeguarding precious natural resources for future generations; and it is about securing property rights, the rule of law, and participatory democracy.

Africa's partners are bringing a new sense of hope and commitment to these challenges. But we are also bringing a greater sense of realism and selectivity in the assistance we provide, both bilaterally and through the international financial institutions.

The Role of the International Financial Institutions

I see two major and interlinked tasks for the International financial institutions in Africa in the years immediately ahead. They must focus increasingly and more effectively on the priority task of private sector development. And, directly related to this, they must help improve the public sector's capacity to do a more limited job more effectively.

Throughout the developing world, including Africa, the private sector doesn't need more incentives, but rather fewer obstacles. Punitive taxes on exports are a common serious distortion throughout Africa. So are impenetrable legal and regulatory barriers, often pervasive corruption, and the sweeping protection against private competition that invariably accompanies heavy state ownership of productive assets. The IFIs are ideally placed to tackle these obstacles head on, and to provide the additional financing that temporary adjustment costs might require.

Measures such as these on the private sector side must be reinforced, and indeed accommodated by, deep reform of public sector institutions. Here the fundamental issue is more about how public resources are used than about the overall quantity of those resources. Inefficient state-owned enterprises should be divested and other distortionary subsidy programs eliminated. Priority use of public funds should be for those purposes that

yield the highest and most enduring development returns for the greatest number of people. Primary education cuts into the cycle of deprivation and poverty; and primary education for girls has been shown to be as high a return investment as is available. Women who receive primary education have healthier, happier, smaller and better educated families. Expenditures such as these must be at the top of the list.

So too, must be investments in primary health, especially in rural areas. Many Americans have a growing sense of outrage at the appalling practice of genital mutilation that afflicts millions and millions of young African girls every year and throughout their lives. Its health and social, and therefore economic, impacts are enormously destructive, and it must be stopped. As with so many development issues, education is the key. I urge the African Bank to use its operations to confront these daily tragedies head on.

The IFIs will continue to have our strong support as they move ahead with this priority work. With an infusion of $3 billion in new resources from non-regional donors, the African Development Fund is once again providing highly concessional funding for priority development investments in Africa's poorest countries. We have also agreed to a major IDA replenishment earmarking an additional $9 billion for the same countries.

The African Development Bank: A Sharper Agenda and a New Partnership

Let me turn now to some specific institutional challenges facing the African Development Bank. For us, this Bank symbolizes both our highest hopes for economic change in Africa and the unfinished work that lies ahead. We share the spirit of promise it which it was created, we highly value our participation, and we appreciate the contributions it has made over the years.

But too often in the past management mistakes and institutional drift frustrated this promise and undercut the Bank's credibility with its clients, with the markets, and with the shareholders providing most of its financial backing. I therefore welcome the unprecedented reforms of the past 18 months. Under President Kabbaj's able administration the institution is making real strides toward restoring its finances, restructuring its portfolio, refocussing its operations and renewing its promise. We salute you Mr. President, and we reaffirm our full confidence and support.

But there is also much more to do, by the Bank itself and by the community of its shareholders.

The Bank itself needs to focus on fewer tasks, and it needs to do them better.

First, it must more sharply define its role in a region flush with development assistance. This means real selectivity. It means finding priority niches where it can bring genuine value added. Smaller scale operations in primary health and education, especially in rural areas, is one such niche. The Bank's ambitious new information policy offers another. Consulting fully with people affected by Bank projects will give them a real voice in their future -- a voice that many have never had. And, it means helping to build a vibrant private sector by making selective direct investments and by helping to build microcredit networks.

Second, the Bank must further deepen its collaboration with the Bretton Woods institutions. Coordinated country strategies, joint missions, and common evaluation standards are all logical candidates.

Finally, the Bank must press ahead with its own institutional reform and renewal, stressing full implementation and building further on the groundwork that has already been laid. Given what we now know about the greatest obstacle to development in Africa -- the lack of transparent and accountable government -- I urge the Bank to adopt a comprehensive governance policy, as did the Asian Bank a year ago.

Mr. Chairman, during the past two years we have rebuilt a strong basis for real partnership with the African Bank. But there is more to be done. Capital shares and governance arrangements in this institution must be brought more directly into line with our interests in and support for this institution. This was the essence of the Governance Report commissioned by the Bank's Governors in 1995.

And it is the basic issue at stake in the ongoing capital increase negotiation -- partnership and fair representation. Our hopes for the negotiation are simple. Through a limited capital increase we seek a non-regional capital share of 45 percent and Executive Board voting rules that will ensure us a more effective voice in the institution.

Let me be perfectly clear. The non-regional members do not seek, nor will we seek, majority ownership of this Bank. What we do seek is the kind of equitable partnership that now exists in the Inter-American Bank, the Asian Bank, and the European Bank. Each of these institutions has been strengthened by both its regional character and strong non-regional partnerships. It is high time for the African Bank to forge such a partnership.

Without such a constructive change, the African Bank's ability to command non-regional support will be reduced. It would be a great tragedy if a few intransigent voices wedded to attitudes of the past were to prevent the richer and deeper partnership we seek. I therefore urge my fellow Governors to consider this crucial issue carefully and to signal by this fall your

willingness to move ahead constructively.

The Challenges Posed by the New Congo

It is not possible to address completely the development challenges facing Africa today without speaking of recent events in the Democratic Republic of the Congo. As Africa's third largest country in area and population, located in the heart of the Continent, and sharing borders with nine nations, the new Congo is truly central to the challenges of African development.

The new Congo's centrality is recognized by Africa's leadership. President Mandela's skilled diplomacy and moral authority played a crucial role in bringing about political transition. African cooperation will continue to be vital in promoting necessary changes in other spheres. This is how it should be given how much is at stake for the people of the new Congo and to all of Africa.

As with the end of apartheid, a new government offers tremendous opportunity for positive change -- opportunity to create a participatory democracy, a prosperous market economy, and to institute the rule of law. African nations and the rest of the international community should seek out ways to support such a transformation, taking into account the new Congolese Government's own efforts to secure human rights, advance democratization, provide refugees with access to humanitarian relief, and begin the hard work of economic stabilization and reform.

If the new Congolese authorities embark on this course, they will find the United States firmly committed to reinforcing constructive change. To begin fruitful cooperation, Ambassador Bill Richardson will soon lead a high-level American team to the new Congo to discuss practical ways in which we can be helpful to the new government as it focuses on economic and democratic reforms.

The international financial institutions must also respond vigorously to a Congolese commitment to reform. This means making available the best experts to assist the new government in devising sound fiscal and monetary policies and creating the institutions to carry these out. Positive evolution of the situation in the new Congo would present the World Bank and IMF with the opportunity to put into practice their recent commitments to do more -- and more quickly -- in post conflict situations. As conditions permit and on terms with which the new government can agree, we would hope that ultimately these institutions could provide financial support.

Yet, I do not want to under-estimate the difficulties new lending would involve. The Congolese authorities have inherited a bankrupt treasury, a narrow fiscal base, weak institutions, and

an enormous foreign debt, including substantial arrears to the very institutions from which financial support would ordinarily be available. Exceptional efforts and creativity will be required on all sides if the new Congo is to emerge from its current predicament. In this regard, recognition by the Congolese authorities of the former Zaire's debts is a very constructive and welcome first step in promoting normal relations with the international financial community.

Conclusion

Ladies and gentlemen, I am convinced that there are more grounds for well founded optimism about Africa's economic future than at any time in decades. The African Development Bank can play a major role in what can be a major success story. Africa and the world cannot afford another lost decade of growth and opportunity. Let us seize the opportunity that we now have.

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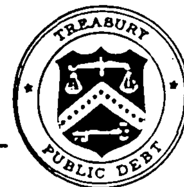
AUCTION RESULTS

PUBLIC DEBT NEWS



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May 28, 1997

CONTACT: Office of Financing
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RESULTS OF TREASURY'S AUCTION OF 2-YEAR NOTES

Tenders for $16,501 million of 2-year notes, Series AF-1999, to be issued June 2, 1997 and to mature May 31, 1999 were accepted today (CUSIP: 9128272V3).

The interest rate on the notes will be 6 1/4%. All competitive tenders at yields lower than 6.328% were accepted in full. Tenders at 6.328% were allotted 42%. All noncompetitive and successful competitive bidders were allotted securities at the yield of 6.328%, with an equivalent price of 99.856. The median yield was 6.312%; that is, 50% of the amount of accepted competitive bids were tendered at or below that yield. The low yield was 6.280%; 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	$40,026,880	$16,501,355

The $16,501 million of accepted tenders includes $1,410 million of noncompetitive tenders and $15,091 million of competitive tenders from the public.

In addition, $1,360 million of tenders was awarded at the high yield to Federal Reserve Banks as agents for foreign and international monetary authorities. An additional $653 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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AUCTION RESULTS

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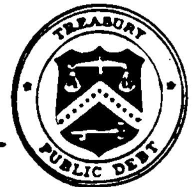

FOR IMMEDIATE RELEASE
May 29, 1997

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 5-YEAR NOTES

Tenders for $12,001 million of 5-year notes, Series G-2002, to be issued June 2, 1997 and to mature May 31, 2002 were accepted today (CUSIP: 9128272W1).

The interest rate on the notes will be 6 1/2%. All competitive tenders at yields lower than 6.616% were accepted in full. Tenders at 6.616% were allotted 37%. All noncompetitive and successful competitive bidders were allotted securities at the yield of 6.616%, with an equivalent price of 99.513. The median yield was 6.600%; that is, 50% of the amount of accepted competitive bids were tendered at or below that yield. The low yield was 6.500%; 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	$33,384,758	$12,000,903

The $12,001 million of accepted tenders includes $738 million of noncompetitive tenders and $11,263 million of competitive tenders from the public.

In addition, $1,000 million of tenders was awarded at the high yield to Federal Reserve Banks as agents for foreign and international monetary authorities. An additional $475 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

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Will African Economies Converge?
(And what we can do to see that it happens)

Address by Lawrence H. Summers
University of Witwatersrand
Johannesburg, South Africa
May 29, 1997

I. A Change in Sentiment

Thank you. It's a pleasure to be back in a university community. I just had a very interesting session with a number of faculty who are expert on the South African economy. Though not an expert myself, I was struck by what seem to be -- at least on the face of it -- strong parallels in the kind of economic challenges both our countries face: high rates of unemployment that are coincident with race; a need to make health care more widely available, to achieve higher returns on educational expenditures, and to preserve fiscal discipline. More generally, both countries must find ways to expand economic opportunity for those who lack it, while preserving the market's uncontestable ability to generate opportunity in the first place.

I just came from Annual Meetings of the African Development Bank in Abidjan, where there was a palpable sense of progress on the Continent. By contrast with ideas and rhetoric that had been prevalent earlier about "planning development", suspicion of markets and foreign investment, state control of "strategic industries", and aid "gaps", this time the buzz in the corridors was about market reforms, privatization, capital market development, and attracting foreign investment.

It wasn't just the rhetoric of public officials that seems to have changed. I spoke at a private sector investment conference the day before the meetings that was standing room only. An investment banker based in London told me about his firm's views about the prospects for returns on Kenyan t-bills. The head of a

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RR-1715

major project finance outfit in my country seems poised to set up an Africa fund, and would be raising money from U.S. pension funds and insurance companies to do so.

The comments and criticisms I heard about U.S. policy toward Africa also seems to have shifted dramatically, even from as recently as 1993, when I last led the U.S. delegation to the AfDB annual meetings. Then, the mood was gloomy about the prospects for maintaining high levels of U.S. aid in the face of Africa's pressing and, I was told, rising needs. This time it was about attracting higher levels of U.S. investment, and I was asked repeated questions about the Clinton Administration's new policy to make trade and investment, not aid, the centerpiece of our economic relations with Africa. One country's finance minister told me bluntly at dinner that he thought all aid should come to an end.

While the hallway chatter in Abidjan seemed a bit effusive at times, I believe that the prospects for economic growth in the developing countries of Africa are the brightest they've been in a generation. What I'd like to talk to you about today is why I think sub-Saharan Africa's development is of vital interest to both our countries. Indeed, I think there must be a convergence in levels of development within Africa, and between Africa and the world's most advanced economies. And unless a convergence occurs through an active strategy to promote private sector growth, there is a real risk for all of us that a convergence will occur anyway, but that its direction will be downward.

II. Africa on the Move?

Sub-Saharan Africa has begun to grow. The region's average annual growth rates rose from 1.4 percent in the years 1991-94, to 4% in 1995, and did as well or better in 1996. A number of others, including Botswana, Mauritius, Uganda, Ghana and Cote d'Ivoire have achieved good results over longer intervals.

As promising as the performance of Sub-Saharan economies has been over the last few years, it must be acknowledged that African economic performance over the last 25 or 30 years has been profoundly disappointing. Disappointing by the standard of the goals that African governments set for themselves, by the standard of performance compared to the rest of the world, and by the harsh standard of the basic ability to maintain even a constant living standard for a growing population.

Let us not forget that in the 1960s, sub-Saharan Africa's per capita income was

on a par with East Asia's -- yet in 1995, average per capita income in Africa still was just $490 and 262 million people got by on a dollar a day or less. On a per capita basis, Korea and Taiwan now are about 30 times richer than the sub-Saharan average, while Malaysia is about 10 times richer and Thailand, 6 times.

These differences in the developmental record reflect many years in which growth rates in Africa have lagged badly. During the 1980s, per capita growth in Africa lagged growth in other developing areas by 5 percent -- and the differential actually increased to 6.3 percent in the 1990s. Performance has been so poor that standards of living in sub-Saharan Africa, as measured by per capita consumption, have declined by nearly one fourth since 1980.

As a consequence, large parts of the continent remain marginalized and impoverished. At 92 per thousand, the infant mortality rate is the highest in the world, as is the illiteracy rate. Life expectancy at birth is only 54 years. Today, on the brink of a new millennium, in large parts of sub-Saharan Africa a child is more likely to be malnourished than learn to read, and more likely to die before the age of 5 than go to school.

III. Foreign Aid is not the Answer

Whatever the problems of growth in Africa, they cannot be traced to lack of official external support. Aid flows represented 12.4% of Sub-Saharan Africa's GNP in 1994, according to the 1996 World Development Report, and this figure represents a decline from that of earlier years. Relative to GDP, external aid has been nearly five times as important in Africa as in other parts of the low-income world.

Where Africa has fallen down is in the worldwide race to attract private capital. In 1996, sub-Saharan Africa received $15 billion in official development finance, but only $12 billion in private capital flows. In contrast, Latin America received only $4 billion in development finance but attracted $73 billion in private capital.

Recently a number of analyses have looked at the impact of aid flows using a number of different methodologies. A consistent pattern has begun to emerge. Without political stability, macroeconomic control, and reasonably functioning markets, aid is at best ineffective. The capital stock per worker in Africa today is lower than it was in 1965. It is noteworthy that on one set of estimates, African wealth owners have invested 37% of their wealth outside Africa. If Africa could hold its residents' capital as well as Asia, its stock of productive capital would be

50% greater.

Aid to governments pursuing the wrong policies can actually be counter-productive. It may encourage public investment that crowds out private investment. It allows governments to postpone painful steps necessary to gain credibility. It can lead to overvalued exchange rates which interfere with the development of export sectors. And it can lead to the accumulation of unsustainable debt burdens. These are not just hypothetical possibilities. Studies at the World Bank by Burnside and Dollar have suggested that in distorted policy environments, aid has actually slowed growth.

It may seem ironic that many of these analyses are emerging from the Bretton Woods institutions. But we should take it as a good sign that the IMF and World Bank are recognizing publicly that they don't have all the answers. In my personal view, and as a former World Bank official myself, I think that institutional humility at the Bank and Fund are closely correlated to institutional effectiveness. I also think the Bank and Fund need to get their timing right: they sometimes seem to run on the wrong schedules - too slow for countries that want to reform fast; too fast for countries that want to run slow.

IV. The Need for Private Sector-led Growth

The African growth record has been studied carefully by economists at the international financial institutions, aid ministries, and universities. Case studies and other analyses have contrasted the experience of African countries with those in other regions. A striking degree of consensus has emerged, pointing to three primary factors in explaining Africa's disappointing performance.

-- First, basic political stability is a prerequisite for growth. Nearly 15 percent of the population of sub-Saharan Africa lives in countries that were several affected by civil war during the '90s. A much higher fraction lives in countries where investors cannot be confident of a stable political environment, and where as a consequence property rights are insecure. It is noteworthy that Africa's standing has deteriorated both relatively and absolutely on international scales of political risk.

-- Second, the lack of macroeconomic stability is inimical to growth. While inflation rates have come down in the last several years, inflation rates in many African countries have been well into double digits for much of the last two decades. And the damage they do has been compounded by financial repression.

-- Third, policies that grossly distort the allocation of resources make

growth impossible. These policies include, but are not limited to, export taxes, high tariff and non-tariff protection, subsidized parastatal inputs, and government- established prices for agricultural products. In some countries, it has been estimated that as much as 1/4 of manufacturing output actually involves negative value added. Of the policies that distort resource allocation, a growing body of evidence suggests that the most serious are those that interfere with integration with the rest of the global economy.

In a recent study, Paul Collier of Oxford and Jan Willem Gunning look at the performance of countries that have avoided the three pitfalls of civil war, macroeconomic instability, and gross resource misallocation. They find that only one-fourth of sub-Saharan Africans lived in countries that avoided these pitfalls in 1995, but that this group averaged 3.2 percent per-capita growth.

This point bears emphasis because it implies that when conditions are right, African countries can grow rapidly. The difficulties of tropical agriculture, closure of some export markets, and high debt burdens are not adequate excuses for slow growth. Indeed, the various reasons often suggested to explain why Africa can grow only slowly must be balanced against the substantial potential represented by the large gap between Africa's current and previously achieved levels of productivity.

V. Engaging the Public Sector to Support the Private Sector
Proposals for U.S. Action...

The powerful examples of growth based on market reforms in Mauritius, Botswana, Uganda, Ghana, to name a few, and the discouraging results of aid during the last 25 years, have underpinned the thinking of the Clinton Administration's proposed "Partnership for Economic Growth and Opportunity". Presented last month to our Congress, the partnership is not another donor-inspired "Africa Initiative", as some may see it. Rather, it is our response to the initiatives that African governments are taking.

We start from the lessons of recent development history. The partnership we propose emphasizes selectivity, the importance of international integration, private capital over official grants, and the role of markets in driving development. The partnership we've proposed is not a panacea, nor does it pretend to address the full range of Sub-Saharan Africa's many development challenges. Its core ideas are, first, that the reforms countries undertake bring their own rewards, and, second, that the best way the United States can support those countries is by making trade and investment -- not just aid -- the

centerpiece of our economic relations. It contains these elements:

1. Expanded market access.

To encourage further trade with the United States, we will offer better access to U.S. markets for African exports under a renewed and expanded GSP program. For those countries ready to embark on bold trade reforms, we have also proposed to Congress an expansion of access to our market for several sensitive products such as textiles and leather goods. In the future, as appropriate, the U.S. will be open to pursue free trade agreements with the strongest-performing, most growth-oriented Sub-Saharan African countries.

2. Investment.

To encourage investment, the U.S. Overseas Private Investment Corporation will launch a $150 million equity fund that will be based here in Johannesburg. A second OPIC fund, to be capitalized at $500 million, is being prepared and will focus on infrastructure development. Countries pursuing the deepest market-oriented reforms are likely to capture the lion's share of the investments.

3. Sharpening the focus of existing U.S. programs.

-- USAID is focusing its development activities in Sub-Saharan Africa to support trade and investment. The Initiative for Southern Africa will devote up to $25 million annually to promote trade and transportation protocols, harmonization of investment policies, and strengthening regional business associations within SADC.

-- USAID will provide technical assistance to governments in Sub-Saharan Africa to help them take advantage of the trade preference programs to be made available, and so that reforming countries become more fully engaged in the WTO.

-- The U.S. Export-Import Bank will work with credit-worthy private companies in Africa to structure asset-backed and project finance deals even where the public sector is not deemed credit worthy.

-- Commodity assistance under the Department of Agriculture's PL-480 program will be targeted at the countries in Sub-Saharan Africa taking the boldest steps to reform, but the assistance will be channeled on a market basis, to promote private sector distribution channels and well-functioning commodity

markets within recipient countries.

4. Debt relief to restore financial viability.

The U.S. is taking a stand at the World Bank and IMF to provide maximum relief for eligible countries pursuing strong reforms within the framework of the program for Heavily Indebted Poor Countries. As you know, it has already been agreed that Uganda should be the first beneficiary of the program, and a number of other strong reformers in Africa should soon be in train for such debt relief. President Clinton has also decided to seek appropriations that would make possible not just the reduction but the extinction of bilateral concessional debts that eligible reformers in Sub-Saharan Africa may still have to us.

5. A Dialogue among economic officials.

Finally, we recognize that if we have aspirations to reorient our economic relations with sub-Saharan African countries to create stronger trade and investment links, we need to ensure that our government's officials who meet with their African counterparts are not just those of our aid agency. Our trade Ministries and our finance ministries must also work together. To this end, the Clinton Administration will be holding annual ministerial-level meetings with selected African countries undertaking bold reforms.

Our trade and investment policy toward Africa emphasizes selectivity, though beneficiary countries, through their own actions to reform, will in effect be self-selecting. While we haven't yet agreed on eligibility criteria with our Congress, no one I've heard has disagreed with the notion that South Africa should be eligible, despite its very different level of development from the rest of Sub-Saharan Africa.
This is not just a question of your stature on the Continent. We want to reinforce the principle that this program is about winners: countries that succeed with reforms should capture more benefits from their trade and investment links with us, not less.

Proposals for South African action...

1. Accelerate growth.

Your stature in the African economy also makes you a key agent for promoting

trade and investment among your neighbors. Given the economic heft of South Africa, perhaps the most important thing you can do for your neighbors -- if I can presume to suggest -- is to accelerate your own growth. We are reminded of the same obligation at G7 meetings.

Beyond the need to keep macroeconomic policies strong, accelerating growth will mean that South Africa will have to address the really difficult structural issues like labor market reform, upgrading the skills of the workforce, and liberalizing your tradable goods sector. As I understand the GEAR program, it can make a good start at confronting these problems.

A fast-growing South Africa will attract more foreign investment. And when these investors make good returns in your country, they will notice the possibilities for profit in the economies that are closely tied to you.

2. Promote regional trade integration.

Regional trade integration is another very useful way to promote your neighbors' economic growth. As an enthusiast of the NAFTA among Mexico, the U.S. and Canada, I'm convinced that SADC has tremendous potential to benefit all parties, despite substantial differences in the level of development among your economies.

The Mexican economy, with an economy only 1/20th the size of the U.S. and a per capita income of about 1/7 of ours, imported substantially more goods from the U.S. in 1996 than it did in 1993, the year before NAFTA. And this was despite a very substantial devaluation of the peso in end-1994 and a deep recession in 1995. I should also mention that Mexico's export sector has increased to 32% of its economy since NAFTA, up from about 24% in just three years, and real wages are on track to rise 5% this year while inflation is coming down.

NAFTA has also served all of its members resist the pleadings of domestic producers that seek -- and might otherwise get -- special protection that is costly to the economy. I think SADC offers the same advantages to you as an anchor for your own trade reforms.

The main concern I would have about any free trade agreement is not about disparate levels of economic development, but that the degree of liberalization should at least match that of the most open economy among the contracting parties, not the most closed. And all of the parties should use regional trade

integration as a step toward, rather than a substitute for or diversion from, global integration.

3. Encourage outbound foreign investment.

A third way you can promote private sector growth in Sub-Saharan Africa is by encouraging outbound investment. Your firms may enjoy a competitive edge as cross-border investors in Africa in that they are already prominent in the mining sector, enjoy geographic proximity, and benefit from better transportation and communications links with a part of the world that is unusually poorly served by such infrastructure.

Outbound investment will also catalyze greater trading opportunities for South Africa. This will arise in part because the investments will draw in imports of capital and intermediate goods, and, in part, because of the stimulating effects to the targeted economy that such investments would have.

I don't know if there are episodic bouts of criticism of outbound investment in your country as there are in mine. NAFTA, for example, raised fears for some that there would be a giant "sucking sound" of jobs being lost to Mexico. The evidence suggests, however, that job creation and efficiency gains from the dramatic expansion in trade between our two countries have overwhelmed the short-term, sectoral costs that may have been incurred.

4. Deepen and broaden integration beyond trade

Private sector growth can be advanced through economic integration in ways beyond promoting free or freer trade. An obvious example is South Africa's involvement in developing the Maputo Corridor. It is also possible, and probably much more efficient, to integrate telephone systems, electricity grids, and railways across international boundaries where national markets are small.

Adoption of common standards and regulatory practices, especially those of financial markets, can have a big effect on modernizing the sector, capturing economies of scale, and improving financial safety and soundness. Financial sector integration has advanced quite far and beneficially within the EU, NAFTA and, to some degree, across Latin America. But again, I should caution that the convergence ought to aim at the highest possible standard with an eye toward global best practices. Common standards that all parties would readily accept are probably too low.

5. Continue policy and technical discussions

The fifth way that South Africa can and does contribute to private sector growth in the region is through policy and technical discussions. I am quite struck by the range of matters that I understand your government works on with its SADC counterparts, and the frequency with which such discussions occur.

Some of these discussions may seem arcane and prosaic. But as someone who has conducted -- if not always enjoyed -- international discussions over such matters as treatment of foreign corporations for taxation purposes, and capital standards for financial conglomerates, I know that these meetings yield real results upon which private sector activity depends. That's why, in our own Africa initiative, we've made frequent and high-level dialogue with Africa's boldest reformers a central plank.

VI. Conclusion: Convergence or Divergence?

Perhaps the enthusiasm I picked up in Abidjan is causing me to get ahead of realities. For it is still not at all clear whether the economies of Africa will converge or diverge. It is clear, however, that a generational shift in leadership, a global economy that is becoming increasingly integrated, and a world that seems to shrink in size each day, present Sub-Saharan Africa with an enormous opportunity.

The crucial question is whether the less developed countries of the sub-Continent reverse years of economic decline and economic marginalization? Or will they fail to sustain sound policies, fail to trust markets, and fail to create an environment that will attract the investment these capital-poor economies so desperately need?

The question is of no small consequence to you as a neighbor -- and to us. For we face essentially the same policy choices as the less developed countries of Sub-Saharan Africa in considering our economic relationship to them. Unless we embrace the economic opportunities and meet the domestic challenges created by global integration, our economies will stagnate and, ultimately, lose their capacity to generate good jobs for our respective populations. Like those of Sub-Saharan Africa, our economies cannot carry on as if a global economy didn't exist.

For South Africa this implies a great virtue in spurring strong growth and economic relations with your African neighbors. For the United States, this implies a strong commitment to reorient our economic relations with Africa so that we can invest in and trade with what may become 47 emerging markets. The alternatives, for both of us, are national economies that over time lose their capacity to bring about economic convergence for our own disadvantaged populations, and an Africa that is mired in poverty, disease, and civil strife. Make no mistake, this affects us too, despite the ocean that separates us.

I hope it is now clear why the United States views Sub-Saharan Africa's economic development as in our own national interests, and why President Clinton is committed to reorient our economic relationship toward the Continent to help contribute to this end through trade and investment. This is also why we support South Africa's leadership in the process of regional integration through SADC. And it is why it will no longer be just U.S. aid officials, but our trade and financial officials that will be visiting Africa to pursue opportunities for fruitful collaboration.

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

May 30, 1997

FEDERAL FINANCING BANK

Charles D. Haworth, Secretary, Federal Financing Bank (FFB), announced the following activity for the month of April 1997.

FFB holdings of obligations issued, sold or guaranteed by other Federal agencies totaled $53.2 billion on April 30, 1997, posting a decrease of $445.2 million from the level on March 31, 1997. This net change was the result of a decrease in holdings of agency debt of $249.8 million, in holdings of agency assets of $170 million, and in holdings of agency guaranteed loans of $25.4 million. FFB made 14 disbursements during the month of April. FFB also received 17 prepayments in April.

Attached to this release are tables presenting FFB April loan activity and FFB holdings as of April 30, 1997.

RR-1716

FEDERAL FINANCING BANK
APRIL 1997 ACTIVITY

ROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST RATE
ICY DEBT				
SOLUTION TRUST CORPORATION				
:e 29 /Advance #1	4/1	$2,921,030,823.11	7/1/97	5.478% S/A
ERNMENT - GUARANTEED LOANS				
NERAL SERVICES ADMINISTRATION				
amblee Office Building	4/1	$12,672,940.21	4/1/99	6.597% S/A
FA Headquarters	4/3	$2,210.63	7/1/25	7.225% S/A
mphis IRS Service Cent.	4/3	$167,359.34	1/2/25	7.225% S/A
kland Office Building	4/3	$2,917.24	9/5/23	7.224% S/A
ley Services Contract	4/24	$367,401.21	7/31/25	7.228% S/A
ley Square Office Bldg.	4/24	$22,966.00	7/31/25	7.228% S/A
kland Office Building	4/24	$9,235.37	9/5/23	7.228% S/A
ami Law Enforcement	4/25	$57,750.00	1/3/22	7.258% S/A
A/PADC				
TC Building	4/17	$10,949,475.23	11/2/26	7.246% S/A
RAL UTILITIES SERVICE				
rry Tele. Coop. #419	4/2	$2,434,000.00	12/31/12	6.978% Qtr.
ntral Power Elec. #395	4/7	$43,000.00	12/31/26	7.212% Qtr.
B.N. Telephone Co. #423	4/7	$278,000.00	1/2/18	7.152% Qtr.
Nebraska Tele. #398	4/21	$163,000.00	1/3/17	7.055% Qtr.
azos Electric #437	4/28	$3,041,000.00	12/31/97	5.916% Qtr.

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

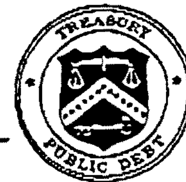
FEDERAL FINANCING BANK
(in millions)

Program	April 30, 1997	March 31, 1997	Net Change 4/1/97-4/30/97	FY '97 Net Change 10/1/96-4/30/97
Agency Debt:				
Export-Import Bank	$ 1,357.3	$ 1,357.3	$ 0.0	$ -464.5
Resolution Trust Corporation	2,671.2	2,921.0	-249.8	-3,324.9
U.S. Postal Service	0.0	0.0	0.0	-1,500.0
sub-total*	4,028.5	4,278.3	-249.8	-5,289.4
Agency Assets:				
FmHA-RDIF	3,675.0	3,675.0	0.0	0.0
FmHA-RHIF	16,505.0	16,675.0	-170.0	-2,195.0
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*	24,803.3	24,973.3	-170.0	-2,195.0
Government-Guaranteed Loans:				
DOD-Foreign Military Sales	3,146.4	3,149.0	-2.7	-100.8
DoEd-HBCU	0.2	0.2	0.0	0.0
DHUD-Community Dev. Block Grant	37.0	37.0	0.0	-2.1
DHUD-Public Housing Notes	1,561.4	1,561.4	0.0	-65.4
General Services Administration +	2,367.6	2,357.5	10.1	35.3
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	15,674.4	15,695.6	-21.1	-1,076.2
SBA-State/Local Development Cos.	293.1	296.8	-3.7	-25.3
DOT-Section 511	4.0	12.0	-8.0	-8.7
sub-total*	24,411.2	24,436.6	-25.4	-1,318.9
grand-total*	$ 53,243.0	$ 53,688.2	$ -445.2	$ -8,803.3

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

AUCTION RESULTS

PUBLIC DEBT NEWS



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

FOR IMMEDIATE RELEASE
June 2, 1997

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 14-DAY BILLS

Tenders for $30,022 million of 14-day bills to be issued June 3, 1997 and to mature June 17, 1997 were accepted today (CUSIP: 912794622).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	5.23%	5.30%	99.797
High	5.28%	5.36%	99.795
Average	5.25%	5.33%	99.796

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	$64,243,000	$30,022,000
Type		
Competitive	$64,243,000	$30,022,000
Noncompetitive	0	0
Subtotal, Public	$64,243,000	$30,022,000
Federal Reserve	0	0
Foreign Official Institutions	0	0
TOTALS	$64,243,000	$30,022,000

5.24 -- 99.796 5.26 -- 99.795 5.27 -- 99.795

RR-1717

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

EMBARGOED FOR 3 PM EDT
Remarks Prepared for Delivery
June 2, 1997

Remarks by Treasury Secretary Robert E. Rubin
on the 50th Anniversary of Marshall Plan
George Washington University

I'm pleased to have been invited to speak to you today on the occasion of the 50th Anniversary of the Marshall Plan, and I am honored to be with those of you here who worked on the Marshall Plan.

Let me start by looking back for a moment, and then I'd like to discuss the carrying forward of the spirit and vision of 1947 to the World of today and tomorrow.

Fifty years ago, George Marshall spoke at Harvard and proposed the outlines of the relief plan for Europe that would bear his name. At a time when we were exhausted from war, a time when the temptation to withdraw from international engagement was strong, we reached out with a dramatic infusion of aid for a Europe in crisis. The costs of the Marshall Plan were immense -- $13 billion over three years, or nearly 10% of the Federal budget at the time. But the return on our investment was equally immense. The Marshall Plan was crucial to the rebuilding of Europe and the strength and prosperity of the Western economies. That Plan -- its spirit and vision -- marked one of America's finest moments.

There is no doubt that, in moral terms, the Marshall Plan was the right thing to do. But the Marshall Plan was also vitally in our economic and national security interest. America needed then -- and needs today -- a prosperous and thriving world to remain prosperous and thriving herself. Visionaries such as George Marshall understood that. Though Marshall was a military man, he knew that victory did not come when the guns were laid down and the flag was raised ... that victory would only come when the conditions for long term peace and prosperity were established. He knew, in short, that stability today could quench conflict tomorrow, that the most effective diplomacy is preventive diplomacy.

RR-1718

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Today the legacy of the Marshall Plan is clear. It helped build a European continent both prosperous and free, one moving ever closer to integration. It firmly set the United States on the course of leadership and engagement in international affairs. And it showed that we had learned the lesson from our decision after World War I to withdraw from global affairs.

The imperative for U.S. leadership and engagement in the global economy have not changed since the Marshall Plan -- though the circumstances obviously have. In fact, in some respects that imperative have increased, just as the centrality of economics to foreign policy, which was great then, has also in some respects increased. In 1947, 12 percent of our economy relied on trade. Today, that figure has more than doubled. In 1947, the vast preponderance of leading U.S. corporations viewed themselves as American companies with offices abroad. Today, they see themselves as global corporations based in the United States. In 1947, capital markets wee national, with very little flow across country borders. Today, there is an enormous integrated global capital market, with vast cross-border investment and financing flows every day. Technology, political change, and market openings have sped our economies toward integration and created new opportunities for growth, but also new risks. It is no exaggeration when we say that our economic well-being is enormously and irreversibly linked to the rest of the world. I saw a column the other day in which the author was decrying the globalization of economic life. I think he might as well have been decrying the rise and fall of the tides. The reality in my view is not at issue. The only question at issue is whether we turn this to our advantage -- with the great benefits that can flow therefrom -- or we turn our back on reality, with the results that usually flow from that. There is no question where George Marshall would have come out.

Fostering a healthy global economy is enormously in our interest in 1997, as it was in 1947. At that time, to confront the economic challenge of post war Europe, Marshall laid out a three-part strategy: providing much needed capital to reconstruct devastated nations; conditioning that assistance on key economic policy reforms; and integrating Europe in the international community. That conditionality and that vision of integrated economies are now sometimes forgotten, but they were an integral part of the Marshall Plan.

The strategy for promoting growth and economic well being in both the developed and the developing countries of today's economy is very similar: supporting sound economic policies in conjunction with providing assistance, now largely through the international financial institutions and their policies of conditionality; breaking down barriers to economic integration, including through the trade liberalizing efforts of NAFTA, GATT, APEC and the Free Trade Area of the Americas; and providing capital, though in today's world this is increasingly by promoting conditions that attract flows of private capital.

And that highlights a central difference between the challenge of rebuilding Europe in 1947 and the challenge of spurring development and growth around the world today. In the 1940's, there were no global capital markets. The Marshall Plan's $13 billion in direct government-to-government lending was critical to the reconstruction of Europe. Now, the key to

development and growth is less official aid, whether bi-lateral or through the international financial institutions, although that remains important, than creating the environment that will attract private investment.

And key to creating that environment is another product of this remarkable period of international vision and leadership in the late 1940s, the Bretton Woods Institutions -- the International Monetary Fund and the World Bank -- and their more recent companion institutions, the regional development banks and the GATT/WTO.

Take the case of the developing countries around the globe which have undergone a remarkable transition over the last twenty-five years. In Asia, in Latin America, in Central Europe, in country after country there is an almost universal emerging consensus that free-market economics are the key to prosperity with many countries in each of these regions achieving great improvement in economic conditions over the recent years or, in some cases, particularly in Asia, over recent decades. And the International Financial Institutions have been central to this, investing in education, health care, and the other underlying requisites for a successful market-based economy, and encouraging sound financial and other policies by conditioning their assistance, just as the Marshall Plan did fifty years ago. This in turn is critical to our country, as prosperity in developing countries and in the countries transitioning from Communism furthers political stability and Democracy, all of which contribute to economic activity in our country and enhances our national security.

However, despite all of the progress with respect to the developing and transitioning countries, the challenge of bringing the whole of the world's population into the economic mainstream remains, and our future -- our economic well being, our national security, our environmental conditions, and our public health -- depends on meeting the challenge. The World Bank estimates that 1.3 billion
people live on less than one dollar per day, and even in many of the countries where significant progress has been made, those gains are not irreversible.

Many parts of Asia have achieved economic conditions unimaginable 30 years ago, but a vast number of Asians still live in poverty. And with Africa there is a whole continent that has remained mired in poverty, though some countries have begun to adopt reform regimes and have begun to experience real economic improvements. Applying the spirit and vision of the Marshall Plan to Africa, I don't think that there is any question that an economically successful Africa is not only in the interest of Africans, but is important in our interests as well.

Towards these ends, the Administration is working with a bi-partisan group in Congress on developing a vigorous African strategy and with the International Fund Institutions to greatly increase their focus on Africa. An Africa that succeeds in a commitment to democracy, economic reform, and sustainable development will provide higher standards of living for its people and be more stable politically and socially. That, in turn, will benefit American

businesses and workers, but it will also strengthen or national security by lessening the need to respond to crises in Africa.

However, every component of forward-looking inter-national economic policy immediately encounters the debate about our country's role in the global economy and more generally in the world -- just as the Marshall Plan triggered an enormous debate in its day. That debate can be seen on a number of fronts. One is the area of resources.

We are the world's largest and richest economy by far, and yet we are the largest debtor to the United Nations and we account for the lion's share of the arrearages to the World Bank and its sister multi-lateral development banks. We were instrumental in creating those institutions, and now we threaten their health.

Similarly, on trade liberalization, as nations around the world join together in all sorts of ways, as with the common market in Europe, MERCOSUR in Latin America, and ASEAN in Asia, the United States seems increasingly resistant to trade liberalization. This movement towards integration will continue, with us or without us; the only question is whether we will be inside, and participate in the benefits, or on the outside, much to our detriment.

To secure the political support to maintain our leadership abroad requires building public support for these forward looking policies. This, too, George Marshall understood very well. When he spoke at Harvard in 1947 about his proposal to help Europe he recognized the political challenge ahead when he said: "An essential part of any successful action on the part of the United States is understanding on the part of the people of America of the character of the problem and the remedies to be applied. Political passion and prejudice should have no part." After he made the proposal, President Truman, Republican Senator Arthur Vandenberg and members of both parties launched a campaign to educate the public about the Plan and build support for it. The Marshall Plan, which was initially met with skepticism and opposition, eventually passed overwhelmingly in both houses of Congress.

Today, we face that same challenge of building in Marshall's words, an understanding on the part of the people of America of the character of the problem and the remedies to be applied. Those in government who are committed to meeting that challenge cannot do so alone. All who understand how vitally our well being is linked to the well being of the rest of the world need to join together in building a

shared understanding among all Americans of that vital linkage.

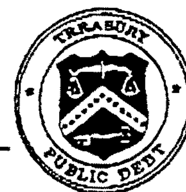
After World War II, much of the support for the Marshall Plan came from the urgencies of the Cold War. Today, there are also great urgencies for American leadership in the world, but they are less obvious and more difficult to understanding, making the challenge of building public support all the greater. I would like to conclude by urging that you leave today's program at George Washington University not only with a deepened understanding of the Marshall Plan

and General George Marshall, but with a commitment to honoring his spirit and vision to the challenges of today -- including helping to build this shared understanding amongst all our citizens of our common interest with the rest of the globe. I have focused primarily on economic interdependence this afternoon, but in today's world national security, public health, environmental protection, crime, terrorism have all become issues that no nation -- even the richest and most powerful -- can face alone. Surely one of the great lessons of the 20th Century, a lesson George Marshall clearly understood, is that withdrawal from international affairs cannot work. When we withdraw, we suffer; when we engage, we prosper. Thank you very much.

-30-

AUCTION RESULTS

PUBLIC DEBT NEWS



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

FOR IMMEDIATE RELEASE
June 2, 1997

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for $7,525 million of 13-week bills to be issued June 5, 1997 and to mature September 4, 1997 were accepted today (CUSIP: 912794SL4).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	4.90%	5.03%	98.761
High	4.94%	5.07%	98.751
Average	4.93%	5.06%	98.754

Tenders at the high discount rate were allotted 42%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$34,014,112	$7,525,476
Type		
Competitive	$32,203,047	$5,714,411
Noncompetitive	1,323,265	1,323,265
Subtotal, Public	$33,526,312	$7,037,676
Foreign Official Institutions	487,800	487,800
TOTALS	$34,014,112	$7,525,476

In addition, $3,993,955 thousand was awarded to the Federal Reserve Banks for their own accounts.

4.91 -- 98.759 4.92 -- 98.756

RR-1719

AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
June 2, 1997

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for $7,538 million of 26-week bills to be issued June 5, 1997 and to mature December 4, 1997 were accepted today (CUSIP: 9127945W0).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	5.21%	5.43%	97.366
High	5.22%	5.44%	97.361
Average	5.22%	5.44%	97.361

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	$38,769,126	$7,537,872
Type		
Competitive	$35,044,970	$3,813,716
Noncompetitive	1,162,156	1,162,156
Subtotal, Public	$36,207,126	$4,975,872
Foreign Official Institutions	2,562,000	2,562,000
TOTALS	$38,769,126	$7,537,872

In addition, $3,445,000 thousand was awarded to the Federal Reserve Banks for their own accounts.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED UNTIL 10 A.M. EDT
Text as Prepared for Delivery
June 3, 1997

TREASURY SECRETARY ROBERT E. RUBIN
HOUSE BANKING AND FINANCIAL SERVICES COMMITTEE

Mr. Chairman, I appreciate this opportunity to discuss with you Treasury's approach to financial modernization. You, along with the members of this Committee, have played a critical leadership role on this issue. I look forward to working with you in the weeks ahead.

With me today is Jerry Hawke, Treasury Under Secretary for Domestic Finance, who has played an important role in developing the Treasury's proposal.

The Treasury has a very simple objective in modernizing financial services: to do so in a way that will benefit consumers, businesses, and communities, enhance the competitiveness of our industry worldwide, and protect the safety and soundness of our financial institutions.

The stakes here are enormous. The Bureau of Economic Analysis estimates that in 1995, Americans spent nearly $300 billion on brokerage, insurance, and banking services. Even if increased competition from financial modernization were to reduce costs to consumers by just 1 percent, that would be a savings of $3 billion a year. And, as I'll explain a bit later, substantially greater savings than that may be likely.

Today, our nation's financial marketplace is exceptionally strong. Unprecedented numbers of Americans have access to credit. We have the most reliable, liquid markets anywhere. Our financial institutions are innovative, and function effectively in a highly competitive global economy.

However, Mr. Chairman, in the midst of all this progress, we're still operating under an outdated legal and regulatory structure. The Glass-Steagall law may have been appropriate when we had a dramatically different financial system. But there have been enormous changes since then.

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The old lines that once separated the insurance, securities, and banking industries have increasingly blurred as new financial products and services have appeared. And regulatory and judicial rulings continue to erode many of the barriers that were put in place to restrain competition among financial services firms.

Our goal now is to create a regulatory and legal environment in which: 1) consumers benefit from lower costs, increased access, better services and greater convenience; 2) financial services providers operate on a level playing field; 3) financial institutions can offer products and services without maneuvering through a maze of archaic laws; and 4) we protect the deposit insurance funds and safety and soundness.

Mr. Chairman, let me now share with you five key elements in our financial modernization proposal. Under Secretary Hawke, in his remarks, will spell out our suggested approach in further detail.

First, we would propose to break down barriers that inhibit or prevent competition among various providers of financial products and services. So, we would permit banks, securities firms, and insurance companies to affiliate with one another.

Second, we would give firms the choice to organize their financial activities in the most efficient way they see fit -- either as a subsidiary of a bank, or as an affiliate of a bank holding company regulated by the Federal Reserve Board.

Third -- and perhaps the most difficult question in this debate -- is whether to permit companies that include banks to engage in non-financial activities, the so-called "banking and commerce" issue.

As we examined this issue, we recognized that people on all sides have strongly held views about this issue. There are, for example, some who believe that permitting broad affiliations between banking and commercial firms could have not only economic implications but also important cultural and social effects. We think the issue needs to be further debated by Congress before settling on a final approach.

I believe that Treasury can be most helpful by providing two possible alternative legislative models.

Under the first model, Congress could decide to permit some modest measure of non-financial activity for bank holding companies. In such a case, it would be sensible to set a high threshold to qualify the organization as predominantly financial.

Under the second model, Congress may decide not to relax limits on non-financial activities of firms affiliated with banks, while permitting bank holding companies and bank subsidiaries to engage in the broad range of financial activities.

Let me now turn to the fourth item in our approach -- the creation of a new wholesale financial institution. WFIs would be banks which accept only wholesale uninsured deposits, but they would not be considered banks for the purpose of holding company regulation.

Lastly, we believe that we should move closer to a system of regulation by function, whereby specific financial activities would be regulated by the appropriate federal or state agency, regardless of where these activities are conducted. In this way, consumers would receive consistent regulatory protections. The Federal Reserve would continue to be responsible for consolidated supervision of bank holding companies but through streamlined procedures. And we would propose to create a council that would help improve coordination among the various financial services regulators.

With all these changes, of course, we must ensure that any and all financial modernization proposals are safe. In the past eight years, we've made great strides in restoring safety and soundness to our financial system. We're mindful of the S&L experience and are committed to avoiding anything of this sort again.

For financial institutions, our proposal for expanded activities provides greater safety and soundness protections than current law. For example, banks would have to be well-capitalized -- the highest regulatory capital category -- and well-managed to qualify for broader affiliations. And they would have to meet important prudential safeguards that prevent subsidiaries or affiliates from weakening the depository institution.

The Treasury approach would also enhance existing consumer safeguards. We would provide for important disclosures -- in plain, straightforward terms -- so buyers can understand whether or not the products they purchase from financial services providers are insured.

And finally, this proposal comes with an absolute commitment to safeguard communities. This Administration will not accept any weakening of the Community Reinvestment Act in any legislation.

In the past, when we have permitted greater competition in the financial services industry, consumers of financial products have benefited significantly. Even more dramatic savings have accrued to consumers after the government has lifted barriers to competition in other industries.

As I mentioned earlier, the Bureau of Economic Analysis estimates that in 1995, American consumers spent nearly $300 billion on fees and commissions for brokerage, insurance, and banking services. That figure would more than double, if we were to add the transaction costs of companies, in addition to consumers. Based on the efficiencies that could be realized from increased competition, it's not unreasonable to expect ultimate savings to consumers of 5 percent from increased competition in the securities, banking and insurance industries -- as much as $15 billion per year. These savings would be substantially greater if you

include costs to companies, as well as consumers. The bulk of these savings should come as financial services firms, driven by increased competition, adopt best-practices.

Consumers would benefit in other ways, as well. A range of financial institutions could offer consumers, farmers, and small businesses greater choice of products. And our proposal could improve access for under-served consumers by encouraging new competitors to find profitable opportunities in overlooked markets.

Mr. Chairman, I share the views of others who feel that the time has come to modernize the rules of our financial services system. Such a move, if done with due regard for safety and soundness, will benefit the broad range of users of financial services: consumers, small and large businesses, communities, and state and local governments. A more rational system, with a level playing field and appropriate safeguards, is in everyone's interest.

Mr. Chairman, we look forward to working with you and the members of this Committee in the time ahead.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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Building a Tax System for the 21st Century
Lawrence H. Summers
Deputy Treasury Secretary
American Institute of Certified Public Accountants
Washington, DC

Good morning and thank you for that introduction. It is an honor to be here today among a group of tax professionals such as yourselves to discuss the vital question of improving the way in which the IRS collects our nation's taxes.

Over the last year, our country has entered a period of intense discussion of the way we collect taxes. This discussion is the result, in part, of a political effort to undermine our capacity to enforce tax law, raise revenue and sustain government institutions. And some attacks on the IRS represent an effort to drive a wedge into the consensus that underlies our system of progressive taxation.

But that is far from the whole story. Another factor underlying this debate is that taxpayers have witnessed a significant erosion in the IRS' comparative performance, particularly in customer service. As the AICPA has observed, the IRS has a long way to go to bring customer service into line with what Americans have come to expect in the private sector. To address this problem, last month, Vice President Gore announced the formation of a new task force, as part of the National Performance Review, to address these problems. Comprised of front line IRS employees, this task force has a mandate to eliminate waste, improve efficiency and raise productivity to help give the American people the customer service they deserve.

A third factor behind the intense debate over the IRS is the highly publicized failure of the Tax Systems Modernization project. During the same period when private firms were improving customer service using information technology, the IRS proved unable to modernize its systems. Recognizing the extent to which this program had gone off track, last year, we at Treasury announced a sharp turn in our approach to modernization. Since then, we have hired a new Chief Information Officer, eliminated wasteful programs and published a comprehensive plan to modernize the IRS' information technology system.

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This plan calls for a centralized, flexible system that permits easier access to data. Today, for example, IRS employees may need from five to nine computer terminals to access data. Our new plan calls for all data to be accessible from a single terminal. Our goal is clear: to build an IRS that is more responsive to taxpayers, that uses technology more effectively, and that is more efficient. While we have further to go, this blueprint represents an important milestone in redirecting our modernization effort.

We are making progress on electronic filing as well. For example, in the most recent filing season:

- The length of time to receive an electronic refund was cut to 14.3 days from 15.5 days last year.
- Telefiling was up 65 percent as of April 15.
- Standard electronic filing via computer modem increased by 19 percent to 14.2 million returns.

And while still woefully inadequate, we are improving our ability to answer customers' questions. This year, the IRS helped nearly 67 million taxpayers who called or walked in asking for help.

We have begun a process of change at the IRS that is yielding results. But we must do more. The environment today and the possibility of new technology to increase efficiency have created new opportunities and new expectations. The IRS of the future cannot be the IRS of a decade ago or even the IRS of today.

Our Five Point Strategy

To effect deeper change in the IRS, a broader framework is needed in which the IRS can operate. We have developed a framework for reform directed at five key areas:

The first of these is to continue to strengthen and make proactive the <u>oversight</u> role of the Treasury Department while bringing the expertise of the private sector to bear on IRS management issues.

To institutionalize Treasury's oversight role, Secretary Rubin has announced that we will seek an Executive Order to create an IRS Oversight Board of government officials. This board will serve as a board of directors to provide ongoing oversight of all major IRS decisions and will expand the scope of the board that we created to deal with technical problems.

This Order will also contain the requirement that the Secretary and Deputy Secretary appear twice yearly before Congress to report on the IRS.

In addition, Secretary Rubin has announced that he will issue an order establishing an IRS Advisory Board to provide advice from outside government. As this group has observed, the use of private sector experts has been used successfully by other agencies. Comprised of experts with private sector or consumer expertise, this board will function much like public trustees and will issue an annual report to the American people.

The second element of our framework is the leadership that is crucial to performance. We will soon appoint a new Commissioner with experience in organizational change, customer service improvement, and information technology management.

To ensure the continuity needed to exercise leadership, Secretary Rubin will propose legislation that would grant the IRS commissioner a fixed five-year term. This model, similar to the one used at the FBI, will provide for greater continuity of leadership and improve the Commissioner's ability to focus on ongoing management issues.

Third, in order to maximize the benefits of new leadership, we will give the new Commissioner the tools needed to make management changes. To do this, we will enhance and strengthen the IRS's ability to manage its operations by improving management flexibility in personnel and procurement. Employees of the IRS, as in any well-managed business, will be held accountable for results.

Fourth, we will work with Congress to help the IRS get the stable and predictable funding it needs to operate more effectively.

Finally, we will continue working to simplify our 9,451-page tax code. Last month, the Administration introduced a revenue-neutral package of more than 60 simplification measures and we will continue to build on this base. As Secretary Rubin said, these measures will save individuals and businesses millions of hours now spent filling out tax forms[--which might even cut into your billable hours.]

These five points provide a framework for continued action. Everyone involved in this process recognizes that the problems at the IRS have developed over decades and will not be solved overnight or even over a couple of filing seasons. But we have made progress. Let there be no doubt that improving the IRS is a responsibility we take seriously.

The Importance of Responsible Oversight

In coming weeks and months and particularly following the release of the report of the IRS Commission on Restructuring, chaired by Senator Kerrey and Congressman Portmann, there will be a lot of discussion and argument about how best to reform the IRS. One proposal under discussion would remove the IRS from executive branch oversight and place it largely under the control of a board of private citizens.

I would like to address this idea because, in my view, it is dangerously flawed. Proposals to shift responsibility for the collection of taxes and enforcement of tax laws raise five serious concerns.

First, separating the IRS from direct executive branch control would undermine accountability. The ability to collect taxes lies at the heart of the notion of sovereignty and the legitimacy of government. In our democratic system, accountability rests with the President and his appointees who are accountable to voters. Our arrangement recognizes and codifies the accountability of the

Secretary of the Treasury and his Deputy for IRS performance. It focuses accountability squarely on two line managers, the Secretary and Deputy Secretary of the Treasury. In contrast, a board would spread accountability across an unelected committee. Giving unelected citizens who may earn private salaries ultimate power over enforcement issues and administration of tax policy would move the IRS further away from the control of the American people.

Second, separating the IRS from the Treasury would undermine tax policy effectiveness. Tax policy and administration go hand in hand. Through our supervisory relationship, we reflect tax policy concerns of the executive branch to the IRS. In turn, we regularly raise questions about the administrability of proposed tax changes in White House meetings. Policy and administration cannot be separated.

Third, having a board of private citizens run the IRS will, in my opinion, not work. Certainly there is value to private sector input and that is reflected in our proposal. But the IRS cannot be run like a private company. The IRS, unlike a corporation, does not have shareholders or a share price. Practical difficulties include possible conflicts of interest between board members's governmental and private interests.

Fourth, board management would present grave law enforcement issues that might lead to constitutional challenges. The very notion of private citizens charged with enforcing the nation's laws would undoubtedly be unacceptable to the public.

Finally, these proposals pose an unacceptable risk to our nation's revenue stream. Ninety-five percent of the government's revenue flows through the IRS. We cannot afford to experiment with responsibility, nor place it under the jurisdiction of part-time managers. Moreover, as I suggested a few minutes a go, a sharp turn is now underway at the IRS. And it is occurring at a time when collections are up. To conduct a public debate on how the IRS should be governed risks paralysis at the very moment when we have begun to make progress. The approach that I have outlined can achieve the principal goals of continuity, outside input and accountability without putting at risk the progress underway--or the vital functions of government.

Conclusion

In conclusion, the different voices involved in the IRS debate have no differences about ends: improved customer service, efficiency, cost effectiveness and major change. I am convinced that the plan we have proposed offers the best prospect for building an IRS that is more responsive to taxpayers, that uses technology more effectively, and that is more efficient. I look forward to continuing this dialog and to working with you to develop the best possible system of taxation. While no one likes to pay taxes, as Justice Oliver Wendell Holmes said in words that are now inscribed in the IRS building, they are what we pay for civilized society.

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TREASURY UNDER SECRETARY FOR DOMESTIC FINANCE
JOHN D. HAWKE, JR.
HOUSE BANKING AND FINANCIAL SERVICES

Mr. Chairman and members of the Committee, I am pleased to appear today with Secretary Rubin to discuss the Treasury Department's draft proposal for financial modernization. The full text of our proposal appears as part of the report that we are submitting to the Congress pursuant to section 2709 of the Economic Growth and Regulatory Paperwork Reduction Act of 1996.

As Secretary Rubin has testified, we believe that American consumers will benefit significantly from legislation that brings increased competition to the financial services industry. Our proposal would achieve that result by eliminating barriers to affiliations between banks and other financial services firms, and by broadening the ability of banking organizations to offer financial products and services. Specifically, we recommend that Congress repeal sections 20 and 32 of the 1933 Glass-Steagall Act, which restrict affiliations between commercial banks and securities firms, as well as section 4 of the Bank Holding Company Act of 1956, which narrowly limits the permissible activities of bank holding companies.

In place of these old restrictions, we propose that Congress adopt a far less restrictive regime for companies that want to own banks. We also propose that the authority of banks to engage in financial activities through financial subsidiaries be broadened. These changes would allow financial services companies that are, or include, banks the freedom to choose between the holding company affiliate and the bank subsidiary as the organizational format for expanded financial activities. We have structured the proposal to provide similar protections for the bank and the deposit insurance funds irrespective of the choice of format. Let me expand briefly on the rules we would apply.

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The "Qualifying Bank Holding Company" ("QBHC")

The proposal sets out three main prerequisites for a company owning a bank to engage in activities that are not permissible for a national bank to engage in directly:

- First, it must be engaged in activities that are "financial in nature."
- Second, all of its subsidiary banks must meet -- and remain in compliance with -- the highest supervisory standard of capitalization, the "well capitalized" standard, and they must be, and stay, well managed.
- Third, it must execute an undertaking that if any bank subsidiary falls below the well capitalized level it will restore the bank to that level or divest it under circumstances in which the divested bank will be well capitalized immediately following the divestiture.

All bank holding companies would continue to be regulated and supervised by the Federal Reserve Board, but they would be free to diversify their financial activities within the limits described in the legislation without further application requirements.

The Financial Subsidiary

Alternatively, national banks (and state banks to the extent permitted by state law) may elect to conduct financial activities not permissible for national banks themselves through their own financial subsidiaries. Three conditions would apply if this format were chosen:

- First, as in the QBHC setting, the parent bank would be required to be and stay well capitalized and well managed.
- Second, the amount of the bank's equity investment in the subsidiary would be excluded from the bank's capital for purposes of determining compliance with the well-capitalized standard. Thus, if the subsidiary were to fail, the bank's regulatory capital would be unaffected.
- Third, after excluding the bank's equity investments in financial subsidiaries, the limits on affiliate transactions in sections 23A and 23B of the Federal Reserve Act would be applicable to dealings between the bank and the subsidiary. Thus loans and other extensions of credit by the bank to the subsidiary would have to be conducted at arm's length, could not exceed 10 percent of the bank's capital, and would have to be fully collateralized. (In addition, the bank's covered transactions with all affiliates, including the subsidiary, could not exceed 20 percent of the bank's capital.)

Subsidiaries of national banks would be permitted to engage in the same financial activities as QBHCs, including insurance underwriting and agency operations, and the full range

of securities activities, including merchant banking. (The permissible activities of subsidiaries of state banks would depend on state law and review by the FDIC.)

The "Banking and Commerce" Issue

As Secretary Rubin has indicated, a major question that will face the Congress in considering expanded activities for bank holding companies is the extent to which -- if at all -- they should be permitted to engage in nonfinancial activities. Congress has a range of choices in this regard, and our proposal sets forth two possible models that might be drawn upon as the Congress debates this issue.

The first is a "basket" concept, similar to that suggested in some pending bills. Under this approach, a company could only be a QBHC if a predominant percentage of its domestic gross revenues -- the exact number to be determined by Congress -- were derived from financial institutions and other financial activities. If this eligibility threshold were met, the remainder of the QBHC's revenues could derive from nonfinancial activities. However, in order to assure that the nonfinancial "basket" could not be used to create very large combinations of banking and commercial or industrial companies, we would prohibit a QBHC from acquiring any nonfinancial company that had total assets in excess of $750 million -- a number that approximates the 1,000 largest nonfinancial companies in the United States. We would also prohibit banks from making loans to, or investing in, their commercial affiliates.

If such a "basket" approach were adopted, it would provide a framework for merging the bank and thrift charters and bringing unitary thrift holding companies, which presently have no limits on their nonfinancial activities, under a common regulatory umbrella with banking organizations. It would also provide a "two-way street" that would make it possible for securities and insurance companies and other diversified financial services firms that may have some modest volume of nonfinancial revenue, to own an insured bank.

On the other hand, Congress might choose not to permit any level of nonfinancial activity for QBHCs. In this event, we believe it would be difficult to merge the bank and thrift charters and to eliminate the unitary thrift holding company, and, as a practical matter, ownership of banks may be precluded for many securities, insurance and diversified financial services firms. Accordingly, if such a "financial-only" alternative were chosen, we believe the thrift industry should remain unchanged from its present configuration, with the unitary thrift holding company format available for companies that could not qualify to own an insured bank.

Neither model would permit subsidiaries of banks to engage in commercial activities.

Federal Reserve Regulation of Holding Companies

The Federal Reserve would continue to approve the formation of, and to supervise and regulate, all bank holding companies. The Board could require holding companies to make reports of financial information if the information is not reasonably available from other sources.

Federal Reserve examinations of a bank holding company would be limited, to the fullest extent possible, to holding company units that could have a materially adverse effect on the safety and soundness of a bank affiliate. The Board would have access to examination reports prepared by federal or state regulatory agencies and self-regulatory organizations.

The Federal Reserve would be permitted to set consolidated capital requirements for a bank holding company if: the holding company and the bank were large enough so as to raise concerns if problems were to arise; the holding company's insured depository institutions accounted for a predominant percentage of the holding company's total assets; or an insured depository institution owned by the holding company were less than well capitalized for more than 90 days, and the holding company engages in activities not permissible for a national bank to engage in directly. Bank holding companies not meeting any of these criteria would presumptively be excluded from consolidated capital requirements, although the Board could impose such requirements (for an individual holding company or class of companies) if it determined that it was needed to avert a material risk to the safety and soundness of a subsidiary bank presented by unusual risk in the holding company's activities, or particular characteristics of its financial structure. Where the Federal Reserve did impose holding company capital requirements, it would be required to develop rules for excluding from the holding company's consolidated assets and capital both the assets and capital of those company components subject to capital requirements of other regulatory authorities, and the assets and capital of other company components capitalized in line with norms for firms engaged in the same line of business.

Wholesale Financial Institutions ("WFIs")

We also propose that Congress authorize wholesale financial institutions, which would be chartered either as national banks or as state banks that are members of the Federal Reserve System, but would not be FDIC-insured and could not take deposits of less than $100,000. WFIs would not be considered "banks" for purposes of the Bank Holding Company Act; thus, like unitary thrift institutions under current law, there would be no activity limits on their owners. However, WFIs would be fully regulated by the OCC and the Federal Reserve; they would have strong capital requirements, enforceable through the usual prompt corrective action remedies; the Federal Reserve would have broad authority to impose protective conditions on WFIs in connection with their use of Federal Reserve services; and WFIs would be subject to the Community Reinvestment Act.

Functional Regulation of Financial Activities

While the Federal Reserve would continue to be the regulator of all bank holding companies under our proposal, the usual regulators of nonbanking financial activities would continue to regulate those activities, whether conducted in a holding company affiliate, a subsidiary of the bank or, with some exceptions, in the bank itself.

All insurance activities, wherever they might be conducted in a banking organization, would be subject to regulation by state authorities under state insurance laws and regulation -- provided that such laws and regulations were truly nondiscriminatory. Where state law had the purpose or effect of discriminating against financial institutions, or had a disproportionately restrictive impact on financial institutions compared to other providers of insurance in the same state, that law would not be applicable to national banks. Similarly, we would retain the standard announced by the Supreme Court in the *Barnett* case, so that a state law that prevented a national bank from engaging in an insurance activity authorized under federal law, or significantly interfered with or impaired its ability to engage in such an activity, could not be applied to national banks. State laws relating to the rehabilitation, conservatorship, receivership, or liquidation of insurance companies would be fully preserved.

Our proposal would narrow the Securities Exchange Act's exemption of banks from broker and dealer registration to permit SEC regulation of activities other than traditional banking activities. The SEC's capital requirements generally may not be applied to a bank that is well-capitalized. Traditional banking products would not be subject to SEC broker-dealer regulation, and the primary banking regulator and the SEC could jointly exempt new banking products. We would update and clarify the Investment Company Act's applicability to banking activities and limit the scope of banks' exemption from the Investment Advisers Act. We would generally have the SEC, rather than the banking agencies, handle the registration of bank-issued securities and periodic reporting by banks having securities registered under the Securities Exchange Act of 1934.

Finally, the principle of national treatment will guide the application of our proposal to foreign financial institutions operating in the United States.

Conversion of Thrift Institutions

Title III of our proposal sets forth a comprehensive program for eliminating the federal thrift charter, phasing out the separate federal regulation of thrift institutions, and bringing unitary thrift holding companies under the same regulatory structure as bank holding companies. As I stated earlier, we believe a charter and regulatory merger makes sense if Congress adopts a "basket" approach that would accommodate some measure of nonfinancial activity by bank holding companies.

Our model would accomplish the "merger" of the thrift industry with the banking industry over a two-year period after enactment. We believe that such a transition period is needed both to allow thrifts to prepare to become regulated as banks, and to permit an orderly merger of the Office of Thrift Supervision (OTS) and the Office of the Comptroller of the Currency (OCC).

At the end of the two-year conversion period a number of things would happen:

- All federally chartered thrifts would be converted to national banks, by operation of law. (They would also have the right to elect an earlier conversion date, and they would retain the same rights they have today to convert to any other available charter prior to the end of the two-year period.)
- All state-chartered thrifts would be treated as state-chartered banks for all federal bank regulatory purposes.
- Unitary thrift holding companies now in existence would be given a grandfather exemption from the "basket" limitations, conditioned on their not having a change of control or acquiring an additional insured bank.
- OTS and OCC would be merged, pursuant to plans developed by the Secretary of the Treasury, effective two years after enactment.
- Membership in the Federal Home Loan Bank System would become voluntary for all institutions. (Mandatory membership would continue for federally chartered thrifts until the end of the two-year conversion period.)
- BIF and SAIF would be merged. (The schedule established in last year's legislation for phasing in sharing of the FICO bond interest payments would not be changed.)

Several other important provisions are proposed in connection with the conversion of the thrift industry to bank regulation:

- Each banking agency would institute a program to accommodate voluntary specialization in housing finance and the conversion of thrift institutions to bank charters.
- A mutual national bank charter would be made available to accommodate thrifts presently operating in mutual form, and mutual holding companies would be authorized.
- With the merger of OTS and OCC, the size of the FDIC board would be restored to three members, as it was for the 56 years before the creation of OTS.

National Council on Financial Services

Our proposal would create a National Council on Financial Services, consisting of the Secretary of the Treasury, the Chairman of the Federal Reserve, the Chairs of the FDIC, SEC and CFTC, the Comptroller of the Currency, the Director of OTS, and a final member,

appointed by the President with the advice and consent of the Senate, having experience in state insurance regulation.

The Council would have authority to define additional types of financial services companies' activities to be "financial" for purposes of the QBHC test, and it could also prescribe additional safeguards to promote safety and soundness. It would also serve in a consultative role with respect to rulings by the OCC concerning the applicability of state insurance law to national banks.

Consumer Protections

The proposal would require regulators to prescribe rules regarding the retail sales of nondeposit investment products by banks and their affiliates, in order to avoid customer confusion about the nature and applicability of FDIC and SIPC insurance, and to protect against conflicts of interest and other abuses. These rules would address such matters as sales practices, qualifications of sales personnel, incentive compensation and referrals. In addition, they would require that disclosures be simple and readily understandable. Customers could prevent sharing of confidential customer information between banks and their nonbank affiliates. The National Council on Financial Services would be required to review the effectiveness of these regulations, and could prescribe more stringent rules than those adopted by the agencies.

Effective Dates

Under the "basket" alternative, the expansion of bank activities and affiliations would take effect two years after the enactment of the legislation -- at the end of the period provided for conversion of the thrift industry. If the second alternative were adopted, with the thrift industry remaining as it is today, we would propose that the expansion of powers and affiliations for banking organizations take effect nine months after the date of enactment.

HIGHLIGHTS OF THE TREASURY'S FINANCIAL MODERNIZATION PROPOSAL

OBJECTIVES

- ***Protect the federal deposit insurance funds and the safety and soundness*** of our financial system.

- ***Reduce costs and increase access*** to financial services for consumers, businesses, and communities.

- ***Promote innovation and enhance the worldwide competitiveness*** of the U.S. financial services industry.

KEY ELEMENTS

- ***Permit affiliations between banks and companies engaged in the full range of financial activities*** (e.g., brokering, underwriting, and dealing in securities; merchant banking; sponsoring mutual funds; selling and underwriting insurance).

  - Give management a choice among different organizational models -- so that a company engaged in these financial activities could be the parent of a bank, a subsidiary of a bank, or a holding-company affiliate of a bank.

- ***Apply strict safeguards designed to keep banks safe and sound.***

  - Require banks with nonbanking affiliates or subsidiaries to be well-capitalized (i.e., in the highest regulatory capital category) and well-managed.

  - Require any company that owns the bank to guarantee that the bank will remain well-capitalized.

  - Require that a bank conduct any loan or guarantee transactions with its affiliates or nonbanking subsidiaries at arm's length. Limit loan and guarantee transactions with any one affiliate or nonbanking subsidiary to 10 percent of the bank's capital, and with all affiliates and nonbanking subsidiaries combined to 20 percent of the bank's capital. Require such transactions to be fully collateralized.

  - If the bank conducts nonbanking activities through a subsidiary, require the bank to deduct from its assets and tangible equity capital the entire amount of its investment in the subsidiary -- so that even the complete failure of the subsidiary will not bring the bank's regulatory capital below the well capitalized level.

- ***Provide two alternative models for dealing with the question of allowing companies affiliated with banks to engage in any nonfinancial activities*** (the so-called "banking and commerce issue").

    - *Alternative A (the "basket" approach)*: Permit a company to own a bank if it derives some high percentage of its gross revenues from financial activities (thus permitting the company to derive a certain percentage of its revenues from nonfinancial activities). *But* prohibit banks from forming affiliations with one of the 1,000 largest nonfinancial U.S. companies. Eliminate the federal thrift charter two years after enactment, facilitate expedited conversions of thrifts to bank charters, and grandfather thrift holding companies' current right to engage in nonfinancial activities.

    - *Alternative B (the "financial-only" approach)*: Do not permit companies that own banks to engage in any *non*financial activities. Preserve the thrift charter and the right of nonfinancial companies to acquire thrifts.

- ***Under either approach, permit any company (financial or nonfinancial) to acquire a "wholesale financial institution"*** that would have access to the payment system and be subject to the Community Reinvestment Act, but would have no retail depositors and no federal deposit insurance.

- ***Expand functional regulation***, particularly of non-traditional securities activities performed in banks. In addition, permit states to apply state laws to bank insurance activities as long as these laws do not impair the operations of national banks.

    - Streamline Federal Reserve supervision of holding companies in several areas including capital, reporting, examinations, and approvals.

- ***Enhance consumer safeguards by requiring federal banking agencies and the SEC to prescribe consumer protection rules for retail sales of nondeposit investment products*** offered by any depository.

    - Require these rules to be designed to avoid customer confusion about the nature and applicability of deposit insurance and SIPC insurance.

BENEFITS OF FINANCIAL MODERNIZATION

By removing barriers to competition in financial services, financial modernization could:

- ***Lower costs*** for users of financial services. The Bureau of Economic Analysis estimates that in 1995, consumers spent $293 billion on brokerage charges, investment counseling, bank service charges, insurance commissions, and pension handling expenses.

- There is room for improvement. Federal Reserve economists have estimated bank cost inefficiencies to be between 13 and 20 percent of total banking industry costs. Studies done in 1993 and published in the *Journal of Banking and Finance* estimate insurance cost inefficiencies to be between 35 and 50 percent.

- If deregulation in other industries is any guide, it is not unreasonable to expect that consumers could ultimately save $15 billion a year from increased competition in financial services (5 percent of $293 billion).

Increase convenience and consumer choice by permitting banks, insurance companies, securities firms, and other financial institutions to offer consumers, farmers, and small businesses a wider range of products. In addition, the option of one-stop shopping should save consumers time and money.

Improve access for under-served consumers by encouraging new competitors to find profitable opportunities in overlooked markets.

CHRONOLOGICAL SUMMARY OF THE TREASURY'S FINANCIAL MODERNIZATION PROPOSAL

***Note:** The Treasury's financial modernization proposal provides Congress with two alternative approaches for considering nonfinancial activities and affiliations between banks and nonfinancial companies. Effective dates for financial modernization would depend on the approach Congress takes on this issue.*

ALTERNATIVE A ("BASKET" APPROACH)

UPON ENACTMENT

Thrift Charter and Regulation

- The banking agencies would institute programs to accommodate voluntary specialization in housing finance and the conversion of thrift institutions to bank charters.

- The Secretary of the Treasury would have discretion to combine functions of the OCC and OTS.

Interagency Council

- The National Council on Financial Services would be established.

TWO MONTHS AFTER ENACTMENT

Thrift Charter and Regulation

- Thrift institutions could opt to become national banks simply by giving notice to the OCC.

- Thrift institutions would have the option of becoming mutual national banks.

NINE MONTHS AFTER ENACTMENT

Thrift Charter and Regulation

- The Secretary of the Treasury would promulgate a plan for merging the OTS and the OCC within two years of enactment.

Functional Regulation

- Provisions for functional regulation of securities activities would become effective, including narrowing the exemption of banks from broker and dealer registration and generally having the SEC, rather than the banking agencies, handle registration of bank-issued securities.

TWO YEARS AFTER ENACTMENT

Activities of Companies Owning Banks

- Qualifying bank holding companies meeting certain qualifications could -- subject to appropriate safeguards -- engage in any financial activity, including the full range of securities activities, insurance activities, investment advisory activities, mutual fund sponsorship, and merchant banking. Likewise, financial companies could own banks.

- Bank holding companies could also engage in a modest amount of nonfinancial activities, subject to the "basket" test for revenues and the prohibition on bank affiliations with the largest 1,000 nonfinancial companies.

Activities of Banks and Their Subsidiaries

- National banks (and state banks to the extent permitted by state law) could, subject to appropriate safeguards, conduct any financial activity through subsidiaries.

- National banks could engage in activities that had previously been permissible for national banks or federally chartered thrifts (except for the power of thrifts to invest in real estate development).

    - National banks (and state banks to the extent permitted by state law) could act as general agents for the sale of insurance.

    - National banks (and state banks to the extent permitted by state law) could underwrite and deal in municipal revenue bonds in addition to other securities activities currently permissible in the bank.

Supervision of Companies Owning Banks

- Federal Reserve oversight of bank holding companies -- including reporting requirements, scope of examinations, and applicability of consolidated holding company capital requirements -- would be streamlined.

Wholesale Financial Institutions

- Wholesale financial institutions, which would have access to the payment system but no retail depositors and no FDIC insurance, could begin operating.

Consumer Safeguards

- Regulators would prescribe rules governing retail sales of nondeposit investment products by banks and their affiliates. These safeguards would be designed to avoid customer confusion and protect against conflicts of interest and other abuses.

Thrift Charter and Regulation

- All remaining federally chartered thrift institutions would become national banks by operation of law. All remaining state-chartered thrifts would be treated as banks for federal bank regulatory purposes.

- Remaining S&L holding companies would become bank holding companies by operation of law, with grandfathering of their current authority to form nonbank affiliations.

- The OTS and the OCC would be combined.

- The FDIC Board would be restored to its original three-member size.

- Federal Home Loan Bank System membership would become voluntary for all institutions.

Deposit Insurance Funds

- The Bank Insurance Fund and Savings Association Insurance Fund would be merged (with the merger occurring no later than January 1, 2000).

ALTERNATIVE B ("FINANCIAL-ONLY" APPROACH)

UPON ENACTMENT

Thrift Charter and Regulation

- The Secretary of the Treasury would have discretion to combine functions of the OCC and OTS.

Interagency Council

- The National Council on Financial Services would be established.

NINE MONTHS AFTER ENACTMENT

Activities of Companies Owning Banks

- Qualifying bank holding companies meeting certain qualifications could -- subject to appropriate safeguards -- engage in any financial activity, including the full range of securities activities, insurance activities, investment advisory activities, mutual fund sponsorship, and merchant banking. Likewise, financial companies could own banks.

Activities of Banks and Their Subsidiaries

- National banks (and state banks to the extent permitted by state law) could, subject to appropriate safeguards, conduct any financial activity through subsidiaries.

- National banks (and state banks to the extent permitted by state law) could act as general agents for the sale of insurance.

- National banks (and state banks to the extent permitted by state law) could underwrite and deal in municipal revenue bonds in addition to other securities activities currently permissible in the bank.

Supervision of Companies Owning Banks

- Federal Reserve oversight of bank holding companies -- including reporting requirements, scope of examinations, and applicability of consolidated holding company capital requirements -- would be streamlined.

Wholesale Financial Institutions

- Wholesale financial institutions, which would have access to the payment system but no retail depositors and no FDIC insurance, could begin operating.

Functional Regulation

- Provisions for functional regulation of securities activities would become effective, including narrowing the exemption of banks from broker and dealer

registration and generally having the SEC, rather than the banking agencies, handle registration of bank-issued securities.

Consumer Safeguards

- Regulators would prescribe rules governing retail sales of nondeposit investment products by banks and their affiliates. These safeguards would be designed to avoid customer confusion and protect against conflicts of interest and other abuses.

JANUARY 1, 1999

Deposit Insurance Funds

- The Bank Insurance Fund and Savings Association Insurance Fund would be merged.

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.
June 3, 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 be issued June 12, 1997. This offering will result in a paydown for the Treasury of about $4,000 million, as the maturing publicly-held weekly bills are outstanding in the amount of $17,991 million.

In addition to the public holdings, Federal Reserve Banks for their own accounts hold $7,229 million of the maturing bills, 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 $2,949 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-1726

HIGHLIGHTS OF TREASURY OFFERINGS OF WEEKLY BILLS
TO BE ISSUED JUNE 12, 1997

June 3, 1997

<u>Offering Amount</u>	$7,000 million	$7,000 million
<u>Description of Offering</u>:		
Term and type of security	91-day bill	182-day bill
CUSIP number	912794 5M 2	912794 2X 1
Auction date	June 9, 1997	June 9, 1997
Issue date	June 12, 1997	June 12, 1997
Maturity date	September 11, 1997	December 11, 1997
Original issue date	March 13, 1997	December 12, 1996
Currently outstanding	$12,136 million	$20,542 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 Daylight Saving time on auction day

Competitive tenders . . . . Prior to 1:00 p.m. Eastern Daylight Saving 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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FOR RELEASE UPON DELIVERY
Expected at 2:00 p.m. EDT
June 5, 1997

STATEMENT OF
DONALD C. LUBICK
ACTING ASSISTANT SECRETARY (TAX POLICY)
DEPARTMENT OF THE TREASURY
BEFORE THE
SUBCOMMITTEE ON TAXATION AND IRS OVERSIGHT
COMMITTEE ON FINANCE
UNITED STATES SENATE

Mr. Chairman and Members of the Subcommittee:

I am pleased to present the views of the Department of the Treasury on issues in S. 460 and S. 570 relating to the deductibility of health insurance premiums for the self-employed, the deduction of home office expenses, worker classification, and the Electronic Federal Tax Payment System (EFTPS), with a focus on their impact on small businesses.

DEDUCTION FOR HEALTH INSURANCE COSTS OF SELF-EMPLOYED INDIVIDUALS

Under current law, contributions by employers to accident and health insurance for employees and their families are deductible and are excluded from employees' income. Self-employed individuals generally are entitled to a deduction in computing adjusted gross income for a percentage of the health insurance premiums paid for themselves and their spouse and dependents.[1] With the Administration's support, the Health Insurance Portability and Accountability Act of 1996 (HIPAA) increased this percentage from 30 percent in 1996 to 40 percent in 1997, and the percentage is scheduled to increase in stages to 80 percent in 2006. The Administration has strongly supported proposals to facilitate health insurance coverage for all Americans, including the self-employed.

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[1]The deduction is not available for any month in which the self-employed individual is eligible for employer-subsidized health coverage of an employer of either the self-employed individual or his or her spouse.

RR-1727

a variety of Federal and State labor and worker protection laws that cover only employees, such as unemployment insurance, workers' compensation, wage and hour requirements, and family and medical leave requirements. While different definitions may apply to worker classification under different laws, because of the distinctly different purposes they serve and the defining case law, the interpretations under one law may influence, legally or practically, the interpretations under other laws. For these reasons, it is important that any legislation altering the status of workers be carefully considered to determine its potential impact on worker protections.

For purposes of the Internal Revenue Code, most workers are classified as employees or independent contractors based on the traditional common-law test for determining the employer-employee relationship.[3] This test focuses on whether the employer has the right to control not only the result of the worker's services but also the means by which the worker accomplishes that result.

The common-law control test by its nature depends on the specific facts and circumstances of each situation. In an effort to administer this facts and circumstances standard better, the Internal Revenue Service (IRS) derived from the case law a variety of factors that courts considered, with more or less weight being accorded to particular factors depending on the context. In most cases, the classification of a worker under the common-law standard is clear. However, because the control test is inherently a factual determination, there are cases in which the correct status of a worker is less obvious.[4] The uncertainty in these cases has been perpetuated by the long-standing statutory moratorium on the issuance of public guidance through regulations or revenue rulings regarding the proper classification of workers for employment tax purposes.

Current tax law does not consistently favor status as either an employee or an independent contractor.[5] However, in particular circumstances, one or the other of the classifications may be

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[3]The Internal Revenue Code (Code) does contain special rules for classifying certain categories of workers. Briefly, these include mandatory independent contractor classification of certain licensed real estate agents, direct sellers, and sitting-service placement agents (sections 3506 and 3508 of the Code); and mandatory employee classification of corporate officers and certain agent-or commission-drivers, life insurance salesmen, home workers, and traveling salesmen (section 3121(d) of the Code).

[4]Cases in which there is intentional misclassification of an employee as an independent contractor should be distinguished from the classification issue generally. In these cases, there is no real question as to whether the workers are employees or independent contractors. Rather, the parties involved may use misclassification as a guise to avoid the costs of Federal and State mandates designed to protect employees or as a method to avoid full reporting of income and to evade taxes.

[5]Prior to 1984, compensation earned by independent contractors was subject to lower rates for Social Security and Medicare taxes than wage income. This disparity was believed to create an incentive for misclassification. The differences were actually less significant than they

advantageous to a service provider, the service recipient, or both. A company's costs may, for example, be lower if its workers are classified as independent contractors rather than employees to the extent the company can pay independent contractors less than the sum of the cash compensation, the costs of the company's portion of Social Security and Medicare taxes, unemployment insurance, workers' compensation, other fringe benefits that the company incurs for employees, and the overhead costs of withholding and recordkeeping. In effect that would require shifting such burdens to the workers without correspondingly adjusting the worker's compensation.

In addition, the income and employment tax provisions of the Code may favor classification as an independent contractor where a worker has significant unreimbursed business expenses. This is primarily because independent contractors face significantly fewer restrictions on their ability to deduct trade or business expenses than employees, as noted earlier.[6] Conversely, employee status may be advantageous for workers with few business expenses who benefit from the tax advantages accorded to fringe benefits, especially those that cost less, or are only obtainable, through an employer, such as employer-provided group health insurance, workers' compensation insurance, or unemployment insurance.

Workers who are classified as independent contractors may also have greater opportunities than employees to avoid full compliance with the tax laws. Independent contractors may find it easier to omit some of their income on their tax returns without detection, although underreporting of income becomes more difficult when an independent contractor's gross income is reported to the IRS on information returns. Moreover, even independent contractors who report 100 percent of income have greater opportunities to overstate deductible business expenses. (In addition, independent contractors can claim their deductible business expenses in full because they are not subject to the requirements that they itemize deductions and that their business expenses and other miscellaneous itemized deductions exceed 2 percent of adjusted gross income.) Clearly, some taxpayers have made use of these opportunities, resulting in noncompliance.

Legislative History

Since the late 1970s, Congress and the Department of the Treasury have considered numerous proposals aimed at resolving issues associated with the classification of workers as employees or independent contractors. Recent proposals have focused primarily on reducing uncertainty,

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appeared, however. Although tax rates were lower for self-employment income than for wages, an independent contractor could not deduct self-employment taxes while an employer could deduct its portion of Social Security and Medicare taxes in computing its taxable income for income tax purposes.

[6]Also, the estimated tax system used to collect income, Social Security, and Medicare taxes from independent contractors largely avoids the overwithholding that can result when an employee incurs large business expenses, has net income that fluctuates during the year, or is employed for only part of a year.

simplifying the rules, and reducing the potential penalties for misclassification. In addition, there have been proposals that include attempts to change Section 530 of the Revenue Act of 1978, which includes a moratorium on issuance of administrative guidance. This moratorium has increased uncertainty, particularly given the changes in the American workplace and development of new service relationships that are inherent in a dynamic economy.

Section 530. In response to a number of large retroactive employment tax assessments in the 1970s, Congress provided certain employers with general statutory relief from IRS reclassification of workers from independent contractors to employees. Section 530 of the Revenue Act of 1978 prohibits the IRS from correcting erroneous classifications of workers as independent contractors for employment tax (but not for income tax) purposes, including prospective corrections, as long as the employer has a reasonable basis for its treatment of the workers as independent contractors. A reasonable basis includes reliance on (i) judicial precedent, published rulings, letter rulings or technical advice memoranda; (ii) a past IRS audit (although prior to changes effective after 1996, not necessarily an employment tax audit) in which there was no assessment attributable to the employment tax treatment of the worker or of workers holding substantially similar positions; (iii) a long-standing recognized practice of a significant segment of the industry in which the worker was engaged; or (iv) any other reasonable basis for the employer's treatment of the worker.

The relief provided by section 530 is not available unless the employer consistently treats the worker, and any other worker holding a substantially similar position, as an independent contractor (sometimes referred to as the "substantive consistency" test) and complies with the statutory requirements for payments to independent contractors. For example, section 530 relief is not available if the employer has failed to comply with the information reporting requirements associated with its treatment of the worker as an independent contractor.

Section 530 applies solely for purposes of the employment tax provisions of the Code. It has no legal effect on an employer's treatment of a worker as an employee for income tax purposes. Further, it does not affect the worker's own tax treatment for any purpose. Consequently, section 530 can result in the receipt by the Social Security system of less than the appropriate amount of employment taxes for some workers. This is because these workers are simultaneously treated as employees for their own tax purposes, and thus are subject only to the employee share of Social Security and Medicare taxes, and are treated as independent contractors by their employers, which pay no employment taxes with respect to these workers. As a result, an amount equal to the employer portion of Social Security and Medicare taxes is not paid. Section 530 also has no impact on determinations of employment status for other purposes, such as eligibility for pension and health benefits and workers' compensation and unemployment insurance.

Section 530 was enacted as a one-year "stopgap" measure until Congress could devise a less contentious standard for classifying workers. It was extended several times and finally extended indefinitely in 1982.

Section 3509. In the Tax Equity and Fiscal Responsibility Act of 1982, Congress added

section 3509 to the Code in order to mitigate employers' liabilities for retroactive employment tax assessments where section 530 relief was not available. Section 3509 generally limits an employer's liability for failure to withhold income, Social Security, and Medicare taxes on payments made to an employee whom it has misclassified as an independent contractor.

Under section 3509, an employer is liable for 1.5 percent of the wages paid to the employee, in lieu of the income taxes that were not withheld, plus 20 percent of the employee's portion of the Social Security and Medicare taxes on those wages. If the employer has not complied with the information reporting requirements associated with the treatment of the worker as an independent contractor, however, these percentages are doubled to 3.0 and 40 percent, respectively. In addition, the employer's liability under section 3509 cannot be reduced by any self-employment or income taxes paid by the misclassified worker. Section 3509 also does not relieve the employer of its liability for 100 percent of the employer portion of Social Security and Medicare taxes. The relief provided by section 3509 is not available if the employer has intentionally disregarded the withholding requirements with respect to the employee.

The rules of section 3509 were developed in an attempt to place an employer and the Federal Government in approximately the same financial position, on average, in which they would have been if the amount of taxes actually paid by the misclassified employees had been determined and used to abate the employer's liabilities, without the need actually to determine those amounts. Thus, section 3509 has no effect on an employer's own liability for Federal or State unemployment insurance taxes or the employer portion of Social Security or Medicare taxes. Also, in return for limiting the employer's liability for failure to withhold employee taxes, section 3509 prohibits the employer from reducing its own liability by recovering any tax determined under the section from the employee, and, as discussed above, gives it no credit for any taxes ultimately paid by the employee.[7]

Section 1706. In the mid-1980s, some employers in the technical services industry complained that the relief granted under section 530 created an unfair advantage for certain of their competitors. They noted that section 530 affects different taxpayers differently, depending on whether they satisfy the statutory conditions for relief. In particular, employers that have consistently misclassified their employees as independent contractors are entitled to relief under section 530, while other employers in the same industry (that, for example, have sometimes taken more conservative positions on classification issues) are not entitled to relief because they cannot satisfy the consistency requirements of section 530. The crux of the employers' complaints was that certain taxpayers in the industry achieved unfair cost savings by having consistently treated and continuing to treat the service providers as independent contractors.

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[7]Under section 3509, as under prior law, the full amount of the misclassified worker's gross compensation is subject to tax, even though, if the worker had always been treated as an employee, the employer would presumably have negotiated to reduce wages to reflect the employer's liability for its portion of Social Security and Medicare taxes, unemployment insurance, and any fringe benefits provided by the employer at its option.

As a result of these complaints, in section 1706 of the Tax Reform Act of 1986, Congress excluded from the ambit of section 530 taxpayers that broker the services of engineers, designers, drafters, computer programmers, systems analysts and "other similarly skilled workers engaged in a similar line of work," effective for payments made after December 31, 1986. Section 1706 applies exclusively to multi-party situations, i.e., those involving (i) technical services workers, (ii) a business that uses the workers, and (iii) a firm that supplies the workers to the business. The effect of section 1706 is to deny section 530 relief solely to the firm that supplies the workers. Section 1706 did not affect the application of section 3509 to such cases.

Small Business Job Protection Act of 1996 - Changes to Section 530. As part of the Small Business Job Protection Act of 1996 (the Small Business Act), Congress clarified and modified the application of section 530, enacting provisions that codified certain IRS positions and practices and changed others. Section 1122 of the Small Business Act provided that: (1) the IRS must provide notice of the availability of section 530 relief at the beginning of a worker classification audit (the IRS issued Publication 1976 for use in satisfying this requirement in October 1996, IR-96-44); (2) beginning for audits commenced after December 31, 1996, the prior audit safe harbor applies only if the audit included an examination for employment tax purposes regarding worker classification; (3) a "significant segment" of the taxpayer's industry does not require the practice by more than 25 percent of the industry; (4) an industry practice need not have continued for more than 10 years in order for the practice to be considered long-standing; (5) a practice will not fail to be treated as long-standing merely because the practice began after 1978; (6) a worker does not have to be otherwise classified as an employee in order for section 530 to apply; (7) the fact that a taxpayer changes the treatment of workers from independent contractors to employees for employment tax purposes does not affect the applicability of section 530 for prior periods (adopting an IRS position stated in Rev. Proc. 85-18); and (8) the determination as to whether an individual holds a position substantially similar to a position held by another individual includes consideration of the relationship between the taxpayer and such individuals.

In addition, the Small Business Act modified the burden of proof in section 530 cases by providing that if a taxpayer establishes a prima facie case that it was reasonable not to treat a worker as an employee, the burden of proof shifts to the IRS with respect to such treatment. In order for the shift in burden of proof to occur, the taxpayer must fully cooperate with reasonable requests by the IRS for information relevant to the taxpayer's treatment of the worker. The shift in burden of proof does not apply for purposes of determining whether the taxpayer had any other reasonable basis for treating the worker as an independent contractor.

Recent Administrative Initiatives

Last year, the IRS announced several administrative initiatives to improve the current situation in the worker classification area. These initiatives respond to concerns expressed by taxpayers, particularly small businesses.

Training and Training Material for IRS Examiners. The IRS developed new training materials

for IRS examiners. The training materials are intended to ensure that examiners make legally correct determinations about whether workers are properly classified as employees or independent contractors under the common-law standard. The materials emphasize to examiners that they must approach the issue of worker classification in a fair and impartial manner, and remind examiners that either worker classification -- independent contractor or employee -- can be a valid and appropriate business choice. These new training materials also demonstrate how the application of the common-law standard has evolved to reflect the changing nature of business relationships. Recognizing the importance of the worker classification issue, and the need to make the training material as clear and as useful as possible, the Service took the unusual step of requesting public comments on the draft of the training documents. Between the original proposed draft and the final version, over 60 sets of comments were received. These comments resulted in significant revisions. The usefulness of the training materials, not only to examiners but also to the public, is illustrated by the fact that the Web site containing these materials has received thousands of "hits" since the materials were finalized in October of 1996.

The IRS training document also addresses in detail the application of section 530 of the Revenue Act of 1978. It makes clear to examiners that section 530 should be actively considered during an examination and that section 530 should be addressed before exploring worker status. In fact, the materials state that examiners are required to explore the applicability of section 530 even if not raised by the taxpayer, in order to correctly determine the taxpayer's tax liability.

During 1996, the IRS undertook intensive retraining of its examiners in the area of worker classification, holding 34 separate classes and investing more than 22,000 person hours in the endeavor. Over 750 specialists in employment tax and related areas received training in these two-day courses. A follow-up video conference also was conducted. In addition, in November, the IRS conducted a three-hour video program for general revenue agents on the worker classification issue. The amount of time devoted to training and the detail in materials provided to employment tax specialists reflects an IRS commitment to ensure that these specialists correctly and fairly classify workers and are informed of the availability of Section 530 and the special rules applicable to classes of statutory employees, statutory non-employees and other special classes of workers, as well as the appropriate application -- in a wide variety of industries and business practices -- of the common-law standard for determining whether a worker is an employee.

This does not mean that businesses need to analyze and undergo this type of training to determine whether their workers are employees or independent contractors. Rather it shows a commitment to provide examiners with the background, training, and experience needed to understand the law, with all of its exceptions and special procedures, and to understand the variety of business practices to which the law is applied. A business owner needs to focus only on application of the law to its business, not on understanding the entire spectrum of business relationships and statutory categories presented to the employment tax specialist. Moreover, the IRS and Treasury have provided summary materials for use by small business. For example, a one-page description of Section 530 is provided to businesses, who can use this to gain a practical understanding of section 530 requirements, instead of reading the detailed background, legal support,

and exercises provided to educate employment tax specialists in this area. The training materials (including the opportunity provided for taxpayers and all other interested parties to comment on a draft of the materials) and the IRS training program based on the new materials are intended to promote both consistency and additional clarity concerning IRS application of the common-law classification standard.

Classification Settlement Program. Another significant initiative taken by the IRS is a classification settlement program that allows businesses to resolve worker classification cases earlier in the examination process, reduce taxpayer costs, and ensure the proper application of the provisions of section 530. The classification settlement program is based on the following key principles: Reclassification of workers who have correctly been treated as independent contractors must be avoided. Worker classification issues should be resolved quickly, and as early in the administrative process as possible. Worker classification issues should be resolved uniformly throughout the country. Resolution of worker classification issues should take into account a taxpayer's past compliance with section 530, as well as the common-law standard. The IRS's compliance programs should encourage correct classification and correct reporting of payments to workers.

Under the classification settlement program, businesses that have misclassified their workers as independent contractors, have filed Form 1099 information returns, but have failed to meet the other requirements for relief under section 530, can settle the matter with IRS examiners by reclassifying their workers prospectively and paying only limited tax assessments.[8] This eliminates the risk that tax assessments could be applied for multiple years.

Participation by businesses in the settlement program is entirely voluntary, and businesses declining to participate retain all rights that exist under the IRS's current procedures. The program is intended to approximate the aggregate results that would be obtained under current law if businesses accepting the offers had instead exercised their right to administrative or judicial appeal. This program appears to have successfully reduced the burdens involved in resolving worker classification settlements, as the rate of acceptance of settlement offers during the quarter ending March 31, 1997 was 81.86 percent. The program is in the second year of a test period that runs through March 6, 1998. At the end of the test period, the program will be evaluated to determine whether it should be continued on a more permanent basis.

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[8]Under the program, if the business meets the section 530 reporting consistency requirement but the business either clearly does not meet the section 530 substantive consistency requirement or clearly cannot meet the section 530 reasonable basis test, the assessment is limited to one year of employment tax liability (as limited by Code section 3509). If the reporting consistency requirement is met and the business has a colorable argument that it meets the substantive consistency requirement and the reasonable basis test, the assessment is limited to 25 percent of one year's income tax withholding, Social Security and Medicare tax liability for the year (as limited by Code section 3509), plus the Federal unemployment insurance tax liability for the year.

Early Referral to Appeals. In addition, in March 1996, the IRS announced procedures for allowing businesses, at their option, to resolve employment tax issues more quickly by appealing these issues to the IRS Appeals function even while the development of other issues raised during an examination is still in progress. In May this appeals procedure was extended for a second year (Ann. 97-52, 1997-21 IRB 22).

These are significant administrative initiatives; they respond to concerns about worker classification expressed by small businesses and other taxpayers and they materially improve the climate for decisions on worker classification. These initiatives should be allowed to go forward without disruption. The Administration has also proposed legislative changes, described below, to lessen the stakes involved in misclassification by eliminating past employment tax liability in certain cases where taxpayers have a reasonable argument that they meet the requirements of Section 530 and by providing easier access to an independent determination by the Tax Court. These proposals also will materially improve the current situation for taxpayers and the IRS.

Administration's Legislative Proposals Relating to Section 530 and Tax Court Jurisdiction

Perhaps the greatest problem for business in the worker classification area is not the possibility that an employer treating its employees as independent contractors will be required to reclassify them as employees for the future, but the risk of substantial employment tax liability and penalties for previous years, even if the employer had a reasonable argument for its classification decision or the belief that it was entitled to section 530 protection.

To address this problem, last year we proposed that Congress permit businesses that misclassify workers as independent contractors and fail to meet the requirements of section 530 to reclassify their workers prospectively with no employment tax liability for prior years, provided that they satisfy certain conditions.[9] To qualify for this relief, the business would have to meet the section 530 reporting consistency condition and have a reasonable argument that it meets the section 530 substantive consistency and reasonable basis requirements. This proposal is intended to provide relief to taxpayers who fall just short of meeting those section 530 requirements. Of course, as under current law, if workers are correctly classified as independent contractors, or if the taxpayer meets section 530, then the business would not be required to reclassify the workers as employees. This proposal was included in the Administration's Tax Simplification Proposals, presented by Secretary Rubin on April 14 of this year.

Further, under the proposal, a taxpayer that believes the IRS has erred in its case would be given an expanded opportunity to obtain an independent review of the IRS decision. United States Tax Court jurisdiction would be enlarged to cover worker classification determinations for employment tax purposes. Of course, the Tax Court would have the authority described above to determine whether misclassified workers should be reclassified on a prospective basis only.

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[9]This suggested legislative change builds on and codifies the relief provided under the IRS's Classification Settlement Program, described above.

Access to the Tax Court would permit disputes to be resolved more quickly and at lower cost than in Federal District Court. Simplified procedures that might be adapted for small business cases would be available in some circumstances. Tax Court judges have considerable experience in resolving tax cases involving similar issues, and many small cases are currently resolved without requiring the business to retain counsel. We believe that the expanded Tax Court jurisdiction would provide a business with increased access to an independent judicial resolution if the business believed its determination, rather than the IRS position, was correct.

These legislative proposals -- to eliminate past employment tax liability in certain cases where taxpayers fall just short of meeting section 530, and to increase a small business's access to an independent, third-party determination -- should further help taxpayers and the IRS to resolve worker classification problems in a fair and cost-effective manner. We believe that, in combination with the administrative steps described earlier, they would provide significant relief to small businesses from the most serious problems relating to worker classification.

In addition, we believe that it may be possible to improve understanding of the common-law classification standard through revenue rulings or other guidance. The recently revised IRS training materials take an important step in this direction by emphasizing that the true common-law test for purposes of the Internal Revenue Code is the right to "direct and control" and that the "20 factors" that are often referred to in connection with this test are relevant only insofar as they provide evidence bearing on whether the test is satisfied.

At present, section 530 precludes the issuance of revenue rulings or guidance. We think that it would be helpful to taxpayers, and ensure uniform national treatment, if relief is provided from this prohibition. This would permit issuance of guidance that could help taxpayers focus on a few factors that are most relevant to their particular situations. We would be pleased to explore with Congress the possibility of amending section 530 at least to the extent necessary to permit publication of such guidance. Providing such guidance could reduce uncertainty, and move toward greater simplification, without shifting the historic balance between classification of workers as employees or independent contractors in a way that threatens worker protections that are based on classification.

The guidance could build on one or more key factors, but it needs to allow flexibility for interpretation consistent with the differing and evolving factual settings in which the standard would be applied. For example, administrative guidance could build on the concept that a key factor in determining whether it is appropriate to classify a worker as an independent contractor is whether the worker has a real possibility of profit and bears a genuine risk of economic loss.

We would intend that such guidance would first be issued in proposed form in order to provide an opportunity for public and Congressional comment and review as to the standards developed. While such guidance could not prescribe a purely mechanical test that would apply in all circumstances, it could simplify the process and reduce uncertainty, without resulting in the widespread and possibly unsettling shifting of current worker classifications that would follow inevitably from some of the legislative proposals that have been introduced in the past.

S. 460

You have asked for our views on the independent contractor provisions of S. 460. We are opposed to these provisions in S. 460 for the reasons stated below. In general, we are concerned that the safe harbor proposed under S. 460 could result in widespread and disruptive shifting of employees to independent contractor status, causing loss of important worker protections, including employer-provided pension and health coverage. We also have grave doubts about other aspects of the proposal, especially whether a purely mechanical standard can ever be devised to deal appropriately with the wide variety of worker relationships and occupations that characterize the complex and dynamic American workplace.

In addition, we believe that now is not the time to overlay yet another piecemeal change to the substantive legislation governing worker classification. Just last year, several changes were made to section 530. Also, new training of employment tax examiners, new training materials, and a process permitting early referral to appeals appear to be successfully reducing burdens in this area. Our procedural legislative proposals relating to section 530 and Tax Court jurisdiction would appropriately lower the stakes concerning worker classification determinations, without risking disruptive shifting of employees to independent contractor status. Moreover, permitting us to issue administrative guidance could also help simplify the process and reduce uncertainty.

Evaluating legislative proposals. Worker classification is a difficult and long-standing issue that has far-reaching implications. Fundamental legal and business issues, including issues beyond the collection of income and employment taxes, may be affected by legislative changes altering the standard for determining whether a worker is an employee or an independent contractor.

Under current law, worker classification in the Internal Revenue Code directly affects income, Social Security and Medicare taxes. However, it also affects other issues such as the availability of employer-provided pensions and group health insurance. For example, under current law, tax-qualified retirement plans sponsored by a business are permitted to cover only the business's employees. Legislation that resulted in the conversion of employees into independent contractors for Federal tax purposes would reduce the number of people eligible to save for retirement in tax-qualified employer-provided pension, 401(k), and other retirement plans. These reclassified workers would be free to establish their own tax-favored retirement plans. However, employer-sponsored plans have proven to be a particularly effective means of promoting retirement savings for workers, especially for middle- and lower-income workers who might be less likely to save outside the workplace, in part because of automatic employer contributions, employee savings through payroll deduction, employer matching contributions, employer education programs, and economies of scale. Maintaining and further increasing worker savings are important policy goals for both the Administration and the Congress. In addition, converting employees into independent contractors could result in fewer people receiving the benefits of lower-cost group health coverage through their employers.

In evaluating any proposed legislation, it is also important to consider whether a new statutory

standard under Federal tax law would lead, legally or practically, to loss of employee retirement or health benefits or coverage under other Federal and State laws, such as the laws that provide unemployment insurance, workers' compensation, minimum wage and maximum hour protections, workplace health and safety standards, and family and medical leave protections to workers who are classified as employees. This might occur, for example, if businesses that reclassified workers as independent contractors under a new Federal employment tax standard also incorrectly treated those workers as independent contractors for purposes of other laws that are based on employee status. Broader reclassification under these other statutory provisions could also result from subsequent efforts, in the interest of simplification, to eliminate inconsistencies between the classification standards under those State and Federal non-tax laws and a new Federal employment tax classification standard by conforming them to the new standard. Also, the determination under the tax laws can be decisive in practice, because of the inability of states to audit once a determination is made for tax purposes. These potentially sweeping implications should be explored carefully and thoroughly before enactment of any new statutory classification standard for Federal tax purposes.

As a general matter, experience suggests that it is difficult to legislate one simple, purely mechanical definition or safe harbor that applies appropriately to the many varied existing worker relationships and occupations. All verbal formulations are subject to problems of manipulability or may be unclear when applied to these differing relationships and occupations. Moreover, specific statutory rules, by contrast to regulations and rulings, are not easily adapted to the changes that are constantly taking place in an area as complex and dynamic as the American work place. There will always be people who operate with new forms of employment not envisioned before. Further, different businesses will choose to structure their relationships with workers in different ways.

Evaluating S. 460. We have very serious concerns about the safe harbor and burden of proof provisions of this bill. First, we are concerned that the new safe harbor could, and would over time, result in widespread and unsettling shifting of employees to independent contractor status, causing tax and other legal disruptions and loss of important worker protections, including employer provided pension and health coverage. This concern is heightened because the bill would apply to worker classification for income tax as well as employment tax purposes.

Second, we are concerned that the addition of this new statutory safe harbor will increase rather than decrease burdens and complexity for businesses and the IRS. Businesses that have uncertainties regarding worker status would potentially need to perform as many as three analyses: under the new safe harbor, under Section 530, and under the existing common law rules. Adding new layers and standards can result in greater administrative burdens on small business administration and on the system generally.

In addition, we are concerned that further expansion of the kinds of cases in which the burden of proof is shifted to the IRS could undermine the voluntary compliance system and result in the loss of worker benefits and protections based on inadequate evidence.

Any changes in the worker classification area must be made with care to ensure that they do

not result in wholesale reclassification of great numbers of workers and concomitant loss of important worker benefits and protections.

We share the sponsors' goal of providing a mechanism for businesses that reasonably believed their workers were independent contractors, and filed Form 1099s for these workers, to classify their workers without imposition of employment tax liability for past years, but we have serious concerns about elements of the prospective reclassification proposal contained in S. 460, particularly its extension beyond employment taxes to income taxes.

Risk of shifting worker status. In an effort to achieve mechanical simplicity in this area, S. 460 would prescribe "safe harbor" criteria for classification as an independent contractor that could result in large-scale shifting of workers from employee to independent contractor status.

The proposed safe harbor includes several requirements that must be met for a service provider to be treated as an independent contractor. These elements of the safe harbor generally are subject to risk of manipulation or can easily be satisfied by many workers who would historically be treated as employees under the common law test and under common sense views of appropriate worker classification. The requirement that an employee have unreimbursed expenses of at least 2 percent of AGI suffers from several inherent problems. Many employees may have unreimbursed expenses of at least this amount; the appropriate percentage may depend on the circumstances involved; it is unclear why results should differ based on non-work related adjustments to income (such as alimony, IRA contributions, or earnings of a spouse); it is unclear how expenses would be allocated among contracts or work projects; it is unclear how the standard would apply when the 2 percent threshold is determined after the end of a calendar year; the standard is subject to manipulation by service recipients who can easily require employees to pay expenses and adjust their compensation to reflect the additional costs incurred; and it is unclear why this standard is necessary, given that unreimbursed expenses would be taken into account under the profit or loss requirement discussed below. The requirement that the service provider agree to perform services for a particular amount of time, or complete a specific result or task, can easily be satisfied by providing a worker with a contract for a specified period, such as month-to-month or pay-period-to pay-period.

The alternative requirements relating to principal place of business, provision of services, and use of facilities are also easily satisfied or manipulated. The service provider can use his or her home as a principal place of business, or can be charged fair market rent for use of the service recipient's facilities, or can use equipment not supplied by the service recipient but have his or her compensation increased to reflect these costs. The requirement that the worker not primarily provide the service at a single service recipient's facilities will be readily satisfied by many repair, maintenance, and delivery workers who may be employees, or by employees in other occupations that, by their nature, involve the performance of services at more than one location. The requirement that the worker and service recipient enter into a written agreement concerning worker classification also would fail to prevent inappropriate recharacterization of employee status, particularly where workers have less bargaining power than the business.

The legislation also includes a verbally simple requirement that the service provider have "the ability to realize a profit or loss". We agree that the potentiality of suffering a genuine economic loss would be, in cases where it occurs, a, perhaps the, key element in determining the proper classification of a worker. In applying this standard, the ability to realize a loss must be a requisite component of the test. For this potential loss standard to have meaning and not be a sham, the risk of loss must be real. Moreover, the potential to realize a profit must also have genuine economic substance; certainly, contingent compensation is not itself an indicator of independent contractor status.

As indicated above, we believe that administrative guidance could address how this standard would be applied (if section 530 were amended to permit the issuance of such guidance), and because of the need to allow for flexibility in interpretation consistent with the different factual settings involved, administrative guidance would be the appropriate forum in which to address this standard. We would have serious concerns about use of such an imprecise standard as a statutory safe harbor. We anticipate that to prescribe this standard by statute rather than to permit it to be addressed through administrative guidance (where the subtleties and limitations could be addressed) might encourage employers to treat it as a mechanical standard that could be satisfied in form rather than in substance. Employers might then attempt to manipulate the requirement by recharacterizing worker status without altering the underlying relationship between the worker and the employer.

It is not difficult for an employer to structure an artificial arrangement that would superficially appear to meet a requirement that an individual be able to realize a profit or loss to be considered an independent contractor, yet would lack economic substance. For example, an employer could require the employee to purchase or rent certain tools and supplies used in generating the employer's product, but could protect the employee from loss by directly compensating the employee through a commensurate pay increase. This could permit an employee to appear to "realize a profit or loss" without changing the nature of the employer-employee relationship or the tasks that the employee would undertake. While we would view all these arrangements as insufficient to constitute the ability to realize a profit or loss, we are concerned that absent clearer limitations or guidance, taxpayers would take such positions in practice.

Two examples illustrate the basis for these concerns about the safe harbor in S. 460. Assume that an employer has employees who are janitors and wishes to shift them from the status of employees to independent contractors, even though the business hired and trained them and provided detailed rules and directions on how offices should be cleaned. Assume further that the business attempts to manipulate the profit and loss requirement by stating that it will only pay the worker if the worker completes the work in accordance with industry standards of cleanliness, but the employer has no intention of refusing to pay on this basis. The other requirements of S. 460 may easily be satisfied even if the worker would appear to be an employee of the employer under the common law standards, and a common sense view. For example, the employer could tell its janitors that in the future they would be required to provide their own mops, cleaning fluids, sponges, gloves, garbage bags, and vacuums (and arrange for them to rent the vacuums or larger machinery), when offering to hire them under the new terms, increasing the rate of compensation to reflect these expenses. For

workers with low wages or sufficient adjustments to income (such as alimony), expenses such as these should be sufficient to constitute at least 2 percent of AGI (only $240 for someone with $12,000 AGI attributable to the employment). The janitors could be required to work on a month-to-month basis in order to satisfy the requirement that the worker agree to perform services for a particular amount of time. The janitors would be operating primarily with equipment not supplied by the service recipient and might well work at a variety of sites. The employer could also require all janitors to sign a service agreement indicating that the janitor would not be treated as an employee with respect to janitorial services for Federal income tax purposes. Accordingly, under the safe harbor these janitors could be treated as independent contractors.

Similar arrangements could be made with the secretaries of the employer. The secretaries could be charged fair market rent for use of their office space, or rent their desk, computer and phone (based on rental rates for such equipment), in order to meet the requirements that unreimbursed expenses equal at least 2 percent of AGI, and that the worker pay a fair market rent for use of the service recipient's facilities. Employers might attempt to meet the profit or loss requirement by including in the personnel manual a statement that secretaries are compensated only if their work meets industry standards, even if the employer has no intention of refusing to pay on this basis. The employer could also insist that the secretaries execute a contract stating that the secretary would not be treated as an employee for Federal income tax purposes with respect to provision of secretarial services. The workers in both of these examples would be classified as employees under the common law standard and under a common sense definition of employee, but would be treated as independent contractors under the safe harbor.

S. 460 would also provide an alternative safe harbor for workers to be treated as independent contractors if services are performed pursuant to a written contract that provides the worker will not be treated as an employee for Federal tax purposes, the worker conducts services as a corporation or limited liability company, and the worker does not receive from the service recipient or payor benefits that are provided to employees of the service recipient. We have serious concerns that this provision could also encourage widespread shifting of employees to independent contractor status.

Increasing complexity by adding safe harbor to two other tiers of determinations. S. 460 would impose a one-way safe harbor on top of the current rules. Any employer that did not meet the safe harbor would still need to operate under the existing regime. Having a multiplicity of different tests and standards creates burdens for small businesses. By overlaying a new safe harbor on the existing laws, the bill would require that employers learn and apply three different regimes: the safe harbor rules, Section 530, and the common law standards. Instead of overlaying yet another set of legal standards on top of existing rules, we believe it would be preferable to explore ways to simplify and focus the current legal standards through the issuance of administrative guidance. For these reasons, we question the value of legislating the proposed safe harbor.

Partial shifting of burden of proof. Under current law, in civil tax litigation, the burden of proof generally lies with the taxpayer. In Tax Court, the Commissioner's notice of deficiency is presumed to be correct, and the taxpayer must prove it is incorrect. In the refund context, the

challenged assessment is presumed to be correct, and the taxpayer must prove his or her entitlement to, as well as the amount of, a refund. The Government generally bears the burden of proof in civil tax cases only where it asserts fraud. The Small Business Act modified the burden of proof in section 530 cases by providing that if a taxpayer "establishes a prima facie case that it was reasonable" not to treat a worker as an employee, the burden of proof with respect to the determination under Section 530 shifts to the IRS, if the taxpayer "fully cooperates" with "reasonable requests" for information.

S. 460 expands application of the shifted burden of proof to cases involving income taxes as well as employment taxes, and with respect to the service provider as well as the service recipient. This change would dramatically increase the scope and number of cases in which burden shifting could occur. This expansion could seriously undermine tax enforcement and compliance and could result in the loss of benefits to workers.

Proposals to shift the burden of proof in tax cases have uniformly been condemned by knowledgeable tax practitioners as a drastic change that could cripple the voluntary compliance system. Any shift of the burden of proof, even a partial one, could make it more difficult for the IRS to examine taxpayers adequately and collect the correct amount of tax. It must be remembered that the taxpayer always has control of the facts and can maintain the documentation necessary to substantiate tax consequences. Indeed, this is the rationale for placing the burden of proof on taxpayers in the first place.

S. 460 gives the taxpayer the benefit of the shifted burden if the taxpayer has "fully cooperated" with "reasonable requests" by the IRS. Whether a taxpayer has "fully cooperated," and whether an IRS request is "reasonable," are factual questions that are likely to spawn their own controversies and give rise to anomalous results. For instance, if the taxpayer has failed to maintain supporting data, or if the data are not technically under the taxpayer's "control" (even if the taxpayer has the same or better access to it than the IRS), the taxpayer might nevertheless argue that it has fully cooperated and that the burden of proof shifts to the IRS.

Similarly, the "prima facie case" threshold would result in bifurcating the evidentiary issues into an initial, "prima facie" case portion and an ultimate finding as to the merits of the dispute. Thus the proposal could lead to more, not less, litigation, with the attendant costs and delays for taxpayers.

Prospective reclassification without imposition of employment tax liability for prior years. As discussed in the description of the Administration's legislative proposals relating to section 530, we propose to permit employers to reclassify workers prospectively with no employment tax liability for prior years, provided that the business met the section 530 reporting consistency condition, and had a reasonable argument that it meets the other section 530 requirements. This proposal is intended to provide relief to taxpayers who fall just short of meeting the section 530 substantive consistency and reasonable basis requirements. S. 460 also provides for prospective reclassification without imposition of tax liability for prior years, if the service recipient or payor entered into a written contract with the service provider that the service provider would not be treated as an employee for Federal income tax purposes, and if the service provider demonstrates a reasonable basis for

determining that the service provider is not an employee and that this determination was made in good faith.

We have several concerns with the proposal in S. 460 as drafted. First, the proposal applies not only to past liability for employment taxes, but with respect to all determinations of worker status for income tax purposes. We are concerned that employers thereby could be excused from providing pension and health benefits to employees who would otherwise be covered. Second, our proposal, consistent with Section 530, requires employers to treat all similarly situated workers the same way. S. 460 would grant employers the special relief even if they pick and choose among workers, treating similarly situated workers differently.

Conclusion

Worker classification is a difficult and complex issue that has far-reaching implications. Legislative changes that would result in the reclassification of workers from employee to independent contractor status could affect a variety of protections for these workers. Because of these concerns, we oppose the independent contractor provisions of S. 460. It is important to explore these potential consequences thoroughly before enacting any new statutory classification standard for Federal tax purposes. At the same time, we believe that Congress in the short run should consider proposals to eliminate retroactive employment tax liabilities in certain cases where an employer has a reasonable argument that it meets the requirements of section 530, and to permit taxpayers to resolve disputes with IRS in a simpler and more cost-effective manner.

EFTPS

You have also asked for our views on S. 570, a bill to exempt certain small businesses from the mandatory electronic fund transfer system. As background to this discussion, we would like to bring to your attention some recent developments in this area, of which you may already be aware.

On Monday, the IRS announced that it would not impose penalties through December 31, 1997, on businesses that become subject to the Electronic Federal Tax Payment System (EFTPS) on July 1, 1997, but fail to use EFTPS. These businesses will still be required to make timely deposits, using either paper coupons or EFTPS.

Under current law, businesses that had more than $50,000 of federal payroll tax deposits in 1995 are required to begin making deposits through EFTPS on July 1, 1997.[10] The six-month waiver

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[10]The $50,000 threshold was originally scheduled to go into effect on January 1, 1997. In 1996, however, Congress became concerned that many of the businesses scheduled to begin electronic payments on that date were either not aware of or confused about their obligations. To address this concern, the Small Business Job Protection Act of 1996 provided that this class of taxpayers is not required to begin using EFTPS until July 1, 1997. (The IRS had shared this concern and had announced, before this delay was enacted, that it would not impose penalties on

of penalties announced by the IRS will provide additional time for these businesses to convert to the new electronic payment system. The IRS will use this additional time to continue its outreach efforts to small businesses. Businesses will be encouraged to get acquainted with EFTPS and to make payments under the new system. They can use this period to learn more about making electronic payments and to make the switch to the new system comfortably and confidently. Successful use of the new system will show businesses that they are correctly enrolled and that their payments can be processed without error. Businesses that encounter problems will be able to make deposits by paper coupon, giving them time to get help and make adjustments without facing a penalty.

We want to stress, however, that the IRS and the small business community have already made substantial progress in converting to the new electronic payment system. Over 1.1 million of the approximately 1.2 million businesses that are required to begin using EFTPS on July 1 have already enrolled in the system. Another 400,000 businesses that could have continued to use paper coupons have enrolled in EFTPS voluntarily. Moreover, approximately 300,000 businesses have voluntarily begun making electronic payments through the new system in advance of the July 1 effective date. Since EFTPS became operational, the Treasury Department has received over $100 billion of electronic payments through the new system.

Turning to the current statutory and regulatory provisions, businesses are required to withhold income taxes and FICA taxes from wages paid to their employees. Businesses also are liable for their portion of FICA taxes, excise taxes, and estimated payments of their corporate income tax liability. Under section 6302 of the Code, the Treasury Department has generally required that these taxes be deposited with banks and other financial agents of the United States. Prior to 1994, all of these depository taxes could be remitted through deposits with a bank or other financial agent using a paper coupon.

In 1993, section 6302(h) was added to require the Treasury Department to develop and implement an electronic fund transfer system for the collection of these taxes. The Treasury Department has developed EFTPS in response to this requirement.

Section 6302(h) requires the Treasury Department to collect specified percentages of the depository taxes through electronic fund transfer. This requirement was phased in over a six-year period, beginning with fiscal year 1994. For fiscal year 1997, 58.3 percent of payroll taxes and 60 percent of all other depository taxes are required to be collected through electronic fund transfer. When fully phased in (in fiscal year 1999), 94 percent of all depository taxes are required to be collected by electronic fund transfer. The regulations implementing this requirement provide that taxpayers are required to use EFTPS if their annual payroll tax deposits exceed a specified threshold. The regulatory requirement is also phased in. For calendar years 1995 and 1996, the thresholds were $78 million and $47 million, respectively. For calendar years 1997 and 1998, the threshold is $50,000.

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these businesses before July 1, 1997.)

Under the regulations the threshold is currently scheduled to fall again, to $20,000, in 1999. However, because participation in EFTPS has surpassed expectations, we will reach the target imposed by section 6302(h) for 1999 and subsequent years without the need to further reduce the threshold. Accordingly, I am pleased to announce that we intend to amend the regulations within the next month to make the $50,000 threshold permanent. Thus, businesses below the $50,000 threshold will not be required to use EFTPS in the future.

S. 570

S. 570 would modify the phase-in rules of section 6302(h). Instead of requiring the collection of specified percentages of depository taxes through electronic fund transfer, a business would be required to use electronic fund transfer for a calendar year only if its depository taxes for the second preceding calendar year exceeded a specified threshold. This is essentially the same approach as that of the current regulations, but the thresholds are generally much higher. For calendar year 1997, the threshold is $47 million.[11] The threshold drops to $30 million in 1998, to $20 million in 1999, to $10 million in 2000, and to $5 million in 2001 and subsequent years.

The Treasury Department believes this change is unnecessary. As noted above, the IRS and the small business community have already made substantial progress toward implementation of a $50,000 threshold. As of June 2, all but 86,000 of the 1.2 million businesses above the $50,000 threshold have already enrolled in EFTPS. The waiver of penalties through December 31, 1997, should provide sufficient time to complete the enrollment process. Moreover, we continue to agree with the views expressed by Congress when it enacted section 6302(h). The report accompanying the legislation listed the following advantages of an electronic fund transfer system:

> Use of an electronic fund transfer system for the collection of tax will promote accuracy and efficiency in processing, and consequently, is expected to result in significant cost savings to the Government. Taxpayers will benefit from increased accuracy, reduction in paperwork burden, and availability of a user-friendly tax collection system.[12]

We also note that 300,000 small businesses have effectively endorsed these views by voluntarily making electronic payments through EFTPS. These businesses have realized the advantages of the new system. EFTPS eliminates most of the paperwork in the old paper

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[11]For the period January 1 through June 30, 1997, this threshold may be lower for certain taxpayers than the threshold currently in effect. As a result of the delay provided in the Small Business Job Protection Act of 1996, the regulatory threshold for 1996 remains in effect through June 30, 1997. Although this threshold is also $47 million, only payroll tax deposits count against the threshold. Under S. 570, all depository taxes are taken into account in determining whether the threshold is exceeded.

[12]S. REP. NO. 189, 103d Cong., 1st Sess. 61 (1993).

coupon system. With EFTPS, deposits may be made quickly and conveniently by telephone or personal computer. EFTPS does away with the need to write out a check, fill out a coupon, and walk or drive to the bank to make the deposit.

While we expect substantial voluntary participation in EFTPS to continue even if S. 570 is enacted, the increased thresholds of S. 570 will inevitably result in some revenue loss. We question whether this loss is justified in view of the many other important tax policy objectives that the Administration and Congress are attempting to accomplish in this year's budget legislation.

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The Treasury Department appreciates the opportunity to discuss these issues with the Members of this Subcommittee and we would be pleased to explore these issues further.

Mr. Chairman, this concludes my formal statement. I will be pleased to answer any questions that you or other Members may wish to ask.

NATIONAL CHURCH ARSON TASK FORCE

P. O. Box 65798
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FOR IMMEDIATE RELEASE
June 5, 1997

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MEDIA ADVISORY

The National Church Arson Task Force will hold a press briefing to release the results of the First Year Report to the President tomorrow, June 6, at 12:00 p.m. in Room 3327 of the Treasury building, 1500 Pennsylvania Avenue, N.W. Cameras may set up at 11:30 a.m.

Task Force Co-Chairs James E. Johnson, Assistant Secretary for Enforcement, Department of the Treasury and Isabelle Katz Pinzler, Acting Assistant Attorney General, Civil Rights Division, Department of Justice will discuss the Administration's response to the nation's church arson crisis. Representatives from the Bureau of Alcohol, Tobacco and Firearms, the Federal Bureau of Investigation and the Federal Emergency Management Administration will also be in attendance.

Media without Treasury, White House, State, Defense or Congressional credentials planning to attend should contact the Treasury's Office of Public Affairs at (202) 622-2960, with the following information: name, social security number and date of birth, by 10:00 a.m. tomorrow. This information may be faxed to (202) 622-1999.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED UNTIL 11:30 A.M. EDT
Text as Prepared for Delivery
June 5, 1997

Treasury Secretary Robert Rubin
U.S. China Business Council
Washington, D.C.

I appreciate the opportunity to speak to you today and I would like to thank the U.S. China Business Council for inviting me and hosting this event. The U.S. China Business Council is a strong and forceful voice for deeper ties with China to integrate it into the global economy. You know better than anyone the critical importance of U.S. engagement with China to our future prosperity -- and for progress on improved social conditions in China.

It goes without saying that the United States has a wide range of interests with respect to China. I'll return to that later, but I would like to start today with our economic strategy. I would like to speak with you about what is in the best interest of the United States when it comes to our economic relationship with China and how best to pursue those interests.

Our economic relationship with China should be viewed in the context of an overall strategy to strengthen economic ties in Asia. As a result of sweeping economic reforms, Asia today is the fastest growing economic region on earth and home to some of the world's most dynamic market economies. Developing countries in Asia now represent 24 percent of world GDP. Their share of world trade rose from 9.6 percent in 1981 to 16.1 percent in 1994. This, in turn, has resulted in an explosion of trade with the United States. We now export more to Asia than to Europe. Helping Asia continue on the development path is clearly in the interest of the United States -- and the key nation in this strategy is China. And if we turn our back on our relationship with China it will affect not only that relationship, but relationships throughout the region.

RR-1729

The United States has three primary strategic interests in our economic relationship with China.

Our first strategic objective is to help promote China's integration into the global economy. The history of the last half century, a time when nations around the globe have become increasingly interdependent, clearly has proven that integration reduces conflict and provides a better foundation for stability and prosperity. This requires integrating China into the major economic institutions where we can work to address shared approaches to common problems.

This also involves China opening to the free flow of trade and investment. China obviously represents enormous economic potential for us, but also poses significant barriers to trade and investment.

This Administration has worked hard to open markets in China. Our exports to China have increased at an annual average rate of 16 percent from 1991 to 1996, compared with U.S. export growth of 11 percent to the rest of Asia and 7 percent to the rest of the world. But China still has average tariff rates of 23 percent and a range of non-tariff barriers -- there is a great deal of work yet to do. Negotiations with China on the commercially meaningful market-opening terms critical to its accession to the World Trade Organization provides a key opportunity to move forward.

China's openness is increasingly important because it is directly related to what many feel is an important argument for revoking normal trade relations with China: the trade deficit. Obviously, in recent years, our trade deficit with China has risen at a rapid rate and has emerged as a major issue in the debate over most favored nation status. What has been less reported, but is important to note however, is that our overall trade deficit with Asia has remained roughly the same in that period. The composition of the trade deficit has shifted to China largely because companies from other Asian economies are shifting their operations to China.

Trade deficits with a low wage country like China are often seen by Americans as evidence that the United States cannot compete with low wage nations. It is true that poor countries -- like China -- are able to produce some low-wage, low-skill items at much lower cost than U.S. firms, to the benefit of U.S. consumers. But in return they buy American goods such as airplanes or construction equipment produced by high-wage, high-skill American jobs. As a highly productive and competitive economy, the United States can -- and does -- trade with low wage countries, including China, and the benefits of increasing trade with these countries vastly outweigh the disadvantages.

Our second strategic objective is to support Hong Kong remaining a growing, vital financial center and economic engine for China and the rest of Asia. As you know, many have concerns about the continuation of civil liberties in Hong Kong after transition of sovereignty to

China. This Administration has made it clear that erosion of democracy and human rights in Hong Kong after the transition would be of grave concern to us.

We know, too, that the Chinese recognize how important maintaining Hong Kong's open economy is to their own economic prospects. There is no firewall between economic freedom and freedom in its many other forms. The unrestricted interchange of information and ideas is critical to economic growth and prosperity.

Our final objective is to help China succeed in its effort to move to a more market oriented economy. A successful reform process requires putting in a place the full array of institutions that represent the foundation of a modern economy. A critical part of this is a sound legal framework which promotes the rule of law. As you know better than anyone, for business to prosper, it must know what to expect when investing or attempting to sell goods in another country, and then to get what it expects. Helping China establish these conditions is certainly in our interest by improving the prospects for U.S. businesses, but it also brings tangible rewards for the Chinese people too. Building a just legal system, with enforceable rights and transparent procedures is critical to economic development -- but as we know so well in this country, it also is a fundamental part of a more open society.

These are our fundamental economic objectives with China, but as I said a moment ago, clearly the United States has other strategic interests with China from non-proliferation to working on problems in the Korean peninsula to the environment to helping to fight infectious diseases. And we have serious disagreements with China on human rights, religious freedom, and prison labor. The question is what is the best way to advance our interests and address our those problems.

Revoking normal trade relations, which some have proposed, would fundamentally undermine our ability to advance our economic and national security interests. Severing trade ties with China will not isolate China. It will isolate the United States.

It will undermine our ability to participate in the economic activity in the region, the most dynamic in the world, particularly with respect to the ongoing integration of the Asian economies. More importantly, it will lead other nations in Asia to question our commitment to the region. Around the world, it will undermine our leadership in the global economy and our efforts to pursue greater trade liberalization.

Revoking normal trade relations with China would also harm Hong Kong in the name of supporting it. As a coalition in Hong Kong of human rights leaders, the current government, and Democracy Party chairman Martin Lee has made clear, it would be exactly the wrong step if our objective is to preserve an autonomous and free Hong Kong. They argue, rightly, that it would severely harm the Hong Kong economy, which is critical to maintaining autonomy.

Revoking normal trade relations is a blunt instrument. We need not choose between

denying MFN and having no influence. Instead, we can maintain normal trade relations and use other economic and diplomatic tools when we disagree with the Chinese. When we raised the issue of rampant piracy of U.S. goods, after tense negotiations, our Administration reached an agreement with China over intellectual property rights, after the threat of targeted sanctions. China closed 39 plants that were producing the pirated good and reached agreement on a new regime to protect intellectual property. Most recently, we instituted sanctions against eight Chinese firms which we suspect of trafficking in equipment that could be used to produce chemical weapons. Negotiating, enforcing, and then insisting on the full implementation of agreements is the best path to progress. This is no easy task as our experience with the prison labor agreement illustrates. In 1994 we reached an agreement that Customs would be able to visit factories to determine if products are made with prison labor. Our experience in this agreement has been mixed. We must be vigilant in insisting on cooperation to fully implement the agreement.

The debate over our trade relations with China has always been difficult, but this year there is a confluence of forces at work -- those rightly concerned about human rights, the transfer of Hong Kong, the trade deficit, and religious persecution -- that make the challenge on Capital Hill tougher than ever. The voices urging that we revoke normal trade status with China are louder this year and represent a broader range of the political spectrum. While these views are legitimate and important, revoking normal trade relations is the wrong way to attempt to solve those problems.

It is critically important that there be a vigorous involvement on the part of the business in this debate. Businesses have both the means and the interest to build a shared understanding with your employees, among the public at large and, of course, with Congress of the importance of U.S. engagement and leadership in the global economy. And that leadership depends on issues such as maintaining normal trade relations with China. I urge you to let your voice be heard.

But involvement in the debate is not enough. I was speaking the other day to one of our most experienced diplomats, who pointed out to me that 25 years ago our most important international contacts were government to government. Today, they are business to business. That has brought tremendous opportunities to businesses around the globe. But it also brings with it considerable responsibilities -- responsibilities that are in the businesses' own interests to fulfill.

Businesses today must play a role in advancing non-economic objectives. Business can and must work with advocates of human rights and labor in China to help promote better human rights conditions, higher labor standards, and the rule of law. Sponsoring exchange programs with Chinese citizens so they can learn about our democratic standards here is one step. Maintaining high standards in your operations and leading by example in China are also critical steps to take.

John Kamm, who I believe is here today, has been honored at this meeting for his work

in this area. His company, Asia Pacific Resources, a consulting firm assisting companies trading and investing in China, has worked hard to promote human rights and rule of law in China by working to obtain the release of individuals arrested for exercising their right of free expression, and for advocating strongly the benefits of human rights to the business community and the Chinese public. John's conviction that a good environment for human rights is good for business is an example to us all.

Let me conclude by reiterating what I said earlier. There is a confluence of voices this year in opposition to maintaining normal trade relations with China. But if we all work together, I believe we can develop the necessary support to maintain normal trade relations with China. This is a prerequisite for ensuring stability in Hong Kong, making progress on helping to establish a more open economy in China, integrating China into the global economy and dealing with human rights issues in China. I thank you for your time, and I look forward working with all of you in the weeks ahead on this critical issue.

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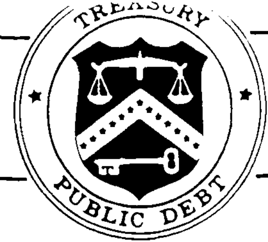
PUBLIC DEBT NEWS



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

FOR RELEASE AT 3:00 PM
June 5, 1997

Contact: Peter Hollenbach
(202) 219-3302

PUBLIC DEBT ANNOUNCES ACTIVITY FOR SECURITIES IN THE STRIPS PROGRAM FOR MAY 1997

Treasury's Bureau of the Public Debt announced activity figures for the month of May 1997, of securities within the Separate Trading of Registered Interest and Principal of Securities program (STRIPS).

	Dollar Amounts in Thousands
Principal Outstanding (Eligible Securities)	$971,648,594
Held in Unstripped Form	$744,150,161
Held in Stripped Form	$227,498,433
Reconstituted in May	$8,802,251

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 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 Treasury securities is also available on the homepage.

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TABLE VI - HOLDINGS OF TREASURY SECURITIES IN STRIPPED FORM, MAY 31, 1997

Loan Description			Corpus STRIP CUSIP	Maturity Date	Principal Amount Outstanding in Thousands			Reconstituted This Month
					Total Outstanding	Portion Held in Unstripped Form	Portion Held in Stripped Form	
Treasury Notes								
CUSIP	Series	Interest Rate						
912827 VE9	B	8-5/8	AK3	08/15/97	9,362,836	6,278,036	3,084,800	132,800
VN9	C	8-7/8	AL1	11/15/97	9,808,329	5,541,129	4,267,200	52,800
VW9	A	8-1/8	AM9	02/15/98	9,159,068	6,309,468	2,849,600	0
WE8	B	9	AN7	05/15/98	9,165,387	6,474,187	2,691,200	68,600
WN8	C	9-1/4	AP2	08/15/98	11,342,646	8,053,046	3,289,600	21,600
WW8	D	8-7/8	AQ0	11/15/98	9,902,875	6,320,475	3,582,400	56,000
XE7	A	8-7/8	AR8	02/15/99	9,719,623	7,914,823	1,804,800	97,600
XN7	B	9-1/8	AS6	05/15/99	10,047,103	6,682,303	3,364,800	80,000
XW7	C	8	AT4	08/15/99	10,163,644	7,150,519	3,013,125	31,150
YE6	D	7-7/8	AU1	11/15/99	10,773,960	7,124,360	3,649,600	4,800
YN6	A	8-1/2	AV9	02/15/00	10,673,033	8,205,433	2,467,600	69,200
YW6	B	8-7/8	AW7	05/15/00	10,496,230	5,613,030	4,883,200	14,400
ZE5	C	8-3/4	AX5	08/15/00	11,080,646	7,440,806	3,639,840	135,360
ZN5	D	8-1/2	AY3	11/15/00	11,519,682	7,354,082	4,165,600	29,600
ZX3	A	7-3/4	AZ0	02/15/01	11,312,802	7,949,602	3,363,200	27,200
A85	B	8	BA4	05/15/01	12,398,083	8,659,008	3,739,075	87,600
B92	C	7-7/8	BB2	08/15/01	12,339,185	8,385,585	3,953,600	51,200
D25	D	7-1/2	BC0	11/15/01	24,226,102	21,061,542	3,164,560	203,920
F49	A	7-1/2	BD8	05/15/02	11,714,397	9,824,877	1,889,520	67,600
G55	B	6-3/8	BE6	08/15/02	23,859,015	22,455,815	1,403,200	81,600
J78	A	6-1/4	BF3	02/15/03	23,562,691	23,175,651	387,040	83,584
L83	B	5-3/4	BG1	08/15/03	28,011,028	27,566,228	444,800	62,400
N81	A	5-7/8	BH9	02/15/04	12,955,077	12,761,477	193,600	0
P89	B	7-1/4	BJ5	05/15/04	14,440,372	14,433,972	6,400	0
Q88	C	7-1/4	BK2	08/15/04	13,346,467	13,295,267	51,200	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	13,802,594	32,160	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	15,208,320	1,600	0
W81	A	5-5/8	BR7	02/15/06	15,513,587	15,509,427	4,160	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	13,103,678	13,103,678	0	0
2U5	C	6-5/8	BX4	05/15/07	13,958,186	13,958,186	0	0
Treasury Bonds:								
CUSIP:		Interest Rate:						
912810 DM7		11-5/8	912803 AB9	11/15/04	8,301,806	4,036,206	4,265,600	387,200
DQ8		12	AD5	05/15/05	4,260,758	2,101,008	2,159,750	295,650
DR6		10-3/4	AG8	08/15/05	9,269,713	7,090,513	2,179,200	102,400
DU9		9-3/8	AJ2	02/15/06	4,755,916	4,740,940	14,976	1,600
DN5		11-3/4	912800 AA7	11/15/14	6,005,584	2,139,184	3,866,400	250,400
DP0		11-1/4	912803 AA1	02/15/15	12,667,799	8,834,199	3,833,600	72,000
DS4		10-5/8	AC7	08/15/15	7,149,916	5,859,996	1,289,920	462,720
DT2		9-7/8	AE3	11/15/15	6,899,859	4,826,259	2,073,600	203,200
DV7		9-1/4	AF0	02/15/16	7,266,854	6,348,454	918,400	148,800
DW5		7-1/4	AH6	05/15/16	18,823,551	18,635,551	188,000	272,000
DX3		7-1/2	AK9	11/15/16	18,864,448	18,071,728	792,720	143,760
DY1		8-3/4	AL7	05/15/17	18,194,169	9,067,609	9,126,560	78,880
DZ8		8-7/8	AM5	08/15/17	14,016,858	7,866,458	6,150,400	216,000
EA2		9-1/8	AN3	05/15/18	8,708,639	3,617,439	5,091,200	158,400
EB0		9	AP8	11/15/18	9,032,870	2,919,670	6,113,200	125,000
EC8		8-7/8	AQ6	02/15/19	19,250,798	5,380,398	13,870,400	488,000
ED6		8-1/8	AR4	08/15/19	20,213,832	18,719,752	1,494,080	538,240
EE4		8-1/2	AS2	02/15/20	10,228,868	6,038,868	4,190,000	349,600
EF1		8-3/4	AT0	05/15/20	10,158,883	3,866,723	6,292,160	299,520
EG9		8-3/4	AU7	08/15/20	21,418,606	6,206,606	15,212,000	485,280
EH7		7-7/8	AV5	02/15/21	11,113,373	10,022,173	1,091,200	68,800
EJ3		8-1/8	AW3	05/15/21	11,958,888	5,455,208	6,503,680	499,520
EK0		8-1/8	AX1	08/15/21	12,163,482	5,365,402	6,798,080	411,840
EL8		8	AY9	11/15/21	32,798,394	5,979,319	26,819,075	502,475
EM6		7-1/4	AZ6	08/15/22	10,352,790	8,257,590	2,095,200	58,400
EN4		7-5/8	BA0	11/15/22	10,699,626	3,027,626	7,672,000	25,600
EP9		7-1/8	BB8	02/15/23	18,374,361	14,158,361	4,216,000	251,200
EQ7		6-1/4	BC6	08/15/23	22,909,044	20,264,372	2,644,672	253,952
ES3		7-1/2	BD4	11/15/24	11,469,662	3,154,062	8,315,600	69,600
ET1		7-5/8	BE2	02/15/25	11,725,170	5,619,570	6,105,600	72,000
EV6		6-7/8	BF9	08/15/25	12,602,007	12,274,327	327,680	27,200
EW4		6	BG7	02/15/26	12,904,916	12,764,916	140,000	0
EX2		6-3/4	BH5	08/15/26	10,893,818	10,650,618	243,200	24,000
EY0		6-1/2	BJ1	11/15/26	11,493,177	11,476,377	16,800	0
EZ7		6-5/8	BK8	02/15/27	10,456,071	10,456,071	0	0
Treasury Inflation-Indexed Notes								
CUSIP	Series	Interest Rate						
912827 2M3	A	3-3/8	912820 BV8	01/15/07	15,912,242	15,912,242	0	0
Total					971,648,594	744,150,161	227,498,433	8,802,251

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) and on the Bureau of the Public Debt's website at http://www.publicdebt.treas.gov. For more information about EBB, call (202) 482-1966. The balances in this table are subject to audit and subsequent adjustments.

NATIONAL CHURCH ARSON TASK FORCE

P O Box 65798
Washington, D.C. 20530

FOR IMMEDIATE RELEASE
June 6, 1997

CONTACT:
Myron Marlin, Justice Dept., (202) 616-2777
Beth Weaver, Treasury Dept., (202) 622-2960

SCHEDULE CHANGESCHEDULE CHANGE***SCHEDULE CHANGE***

MEDIA ADVISORY

The National Church Arson Task Force will hold a press briefing to release the results of the First Year Report to the President on **Sunday, June 8, at 1:00 p.m.** in Room 3327 of the Treasury building, 1500 Pennsylvania Avenue, N.W. Cameras may set up at 12:30 p.m.

The Task Force will discuss the Administration's response to the nation's church arson crisis. Representatives from the Departments of the Treasury, Justice, Housing and Urban Development, Bureau of Alcohol, Tobacco and Firearms, Federal Bureau of Investigation and the Federal Emergency Management Agency will be in attendance.

Media without Treasury, White House, State, Defense or Congressional credentials planning to attend should contact the Treasury's Office of Public Affairs at (202) 622-2960, with the following information: name, social security number and date of birth, by close of business today. This information may be faxed to (202) 622-1999.

RR-1731

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR IMMEDIATE RELEASE
June 7, 1997

CONTACT: Beth Weaver
202-622-2960

MEDIA ADVISORY

SECRETARY RUBIN SWEARS IN NEW SECRET SERVICE DIRECTOR

Treasury Secretary Robert E. Rubin will administer the oath of office to the new Director of the United States Secret Service today at 2:00 p.m. in Room 3311 of the Treasury building. Cameras may set up at 1:30 p.m.

Media without Treasury, White House, State, Defense or Congressional credentials planning to attend should contact Treasury's Office of Public Affairs at (202)622-2960, with the following information: name, social security number and date of birth, by 12:00 p.m. today. This information may be faxed to (202)622-1999.

RR-1732

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For press releases, speeches, public schedules and official biographies, call our 24-hour fax line at (202) 622-2040

DEPARTMENT OF THE TREASURY

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FOR IMMEDIATE RELEASE
June 6, 1997

Contact:
Beth Weaver (202) 622-2960

TREASURY SECRETARY RUBIN SWEARS IN NEW SECRET SERVICE HEAD

Treasury Secretary Robert E. Rubin administered the formal oath of office today to the new Director of the United States Secret Service, Lewis C. Merletti.

"Today's announcement reflects the belief that Lew Merletti is best suited to meet the challenge of heading up the Secret Service, a law enforcement bureau with vital responsibilities as diverse as they are critical," stated Secretary Rubin. "The Service's mandate extends from protecting the President and other designated officials, to protecting the currency from counterfeiting to protecting the public through counter terrorism efforts."

Merletti, a career Secret Service agent has served his country in many different capacities for thirty years. He enlisted in the Army in 1967, served in Vietnam in the Special Forces, received the Bronze Star, the Combat Medical Badge, among other citations.

"The men and women who serve the Secret Service and other federal law enforcement bureaus have always been among the finest and bravest in the world. There is no question he is the right person to lead the Secret Service," continued Rubin.

A graduate of Duquesne University, Merletti began his tenure with the Secret Service in 1974 as a special agent assigned to the Philadelphia Field Office. He has served as the Special Agent in Charge in Baltimore, the Special Agent in Charge of the Presidential Protective Division, the Deputy Assistant Director at the Office of Inspection, and most recently as Assistant Director of the Office of Training.

Throughout his career, Merletti has had some of the Service's toughest assignments. In 1996, Merletti oversaw security for the President's trip to Egypt for the Summit of the Peacemakers, as well as the President's visit to Israel after the Summit. That same year, he oversaw the President's trip to Bosnia. In 1993, he led the team at Treasury investigating the Waco incident. And in 1990, he oversaw security for President's Bush's trip to visit the troops of Operation Desert Shield in the gulf.

RR-1733

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DEPARTMENT OF THE TREASURY

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June 6, 1997

Monthly Release of U.S. Reserve Assets

The Treasury Department today released U.S. reserve assets data for the month of May 1997.

As indicated in this table, U.S. reserve assets amounted to $68,054 million at the end of May 1997, up from $65,873 million in April 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/		Reserve Position in IMF 2/
				ESF	System	
1997						
April	65,873r	11,051r	9,726	14,139	17,297	13,660
May	68,054p	11,051p	10,050	14,988	18,003	13,962

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/ Includes holdings of Treasury and Federal Reserve System; beginning November 1978, these 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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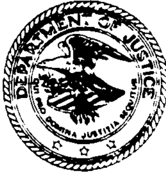

NATIONAL CHURCH ARSON TASK FORCE

P. O. Box 65798
Washington, D.C. 20530

FOR IMMEDIATE RELEASE
June 8, 1997

Contact: Beth Weaver
(202) 622-2960

NATIONAL CHURCH ARSON TASK FORCE RELEASES REPORT TO PRESIDENT ON ONE YEAR ANNIVERSARY

The National Church Arson Task Force on Sunday released a one-year report to the President detailing the results of the Administration's three-pronged response to the nation's church arson crisis.

"A year ago today, President Clinton pledged to safeguard the religious freedom of all Americans," James E. Johnson, Treasury Assistant Secretary for Enforcement and co-chair of the Task Force, said. "As this report makes clear, the men and women of the Task Force are doing just that."

Johnson said the Task Force has been successful because of increased coordination between federal, state and local law enforcement officials.

John Dwyer, Acting Associate Attorney General, said: "These fires stirred our national conscience and threatened our common sense of sanctuary. What matters most is that we responded. We addressed the fears and apprehensions of affected communities; we have pursued the arsonists; and we have helped rebuild both the structures and the spirit of the congregations."

The report details results of the Task Force work, including:

- launching 429 investigations into arsons, bombings or attempted bombings at houses of worship since January 1, 1995, resulting in the arrest of 199 suspects in connection with 150 of these investigations;
- a 35 percent arrest rate in Task Force arson cases--more than double the 16 percent arrest rate for arsons in general;
- and federal, state and local prosecutors have convicted 110 defendants in connection with fires at 77 houses of worship since January 1995.

The One Year Report to the President is available through the Public Affairs Offices of the Department of Justice (202) 616-2777 or the Department of the Treasury at (202) 622-2960 or via the Internet at www.atf.treas.gov after 7 p.m. EST.

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RR-1735

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
June 9, 1997

Contact: Paul Elliott
202-622-2960

MEDIA ADVISORY

Deputy Treasury Secretary Lawrence H. Summers will hold a press conference on inflation-indexed securities at 10:30 a.m., today, Monday, June 9 in the Secretary's Conference Room, Room 3327 at the Treasury Department. Cameras may set up at 10 a.m.

Media without Treasury, White House, State, Defense or Congressional credentials planning to attend should contact Treasury's Office of Public Affairs at (202) 622-2960, with the following information: name, social security number and date of birth, by 10:00 a.m. This information may be faxed to (202) 622-1999.

RR--1736

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR IMMEDIATE RELEASE
June 9, 1997

CONTACT: Paul Elliott
(202) 622-2960

TREASURY CALLS FOR LARGE POSITION REPORTS

The Treasury is calling for Large Position Reports from those entities whose reportable position in the 6¼% Treasury Notes of February 2007 equals or exceeds $2½ billion as of close of business Friday, June 6, 1997. This call for Large Position Reports is a test. Entities with reportable positions in this 10-year note equal to or exceeding this $2½ billion threshold must report these positions to the Federal Reserve Bank of New York. Reports, which must include the required position and administrative information, must be received by the Market Reports Division of the Federal Reserve Bank of New York before noon Eastern time on Friday, June 13, 1997. Large Position Reports may be filed by facsimile at (212) 720-8028 or delivered to the Bank at 33 Liberty Street, 4th floor.

Details on Call for Large Position Reports

Security Description:	6¼% Treasury Notes of February 2007, Series B-2007
CUSIP Number:	912827 2J 0
CUSIP Number of STRIPS Principal Component:	912820 BW 6
Maturity Date:	February 15, 2007
Date for Which Information Must Be Reported:	June 6, 1997 as of COB
Large Position Reporting Threshold:	$2½ Billion (Par Value)
Date Report Is Due:	June 13, 1997, before noon Eastern time

This call for large position information is made under Treasury's large position reporting rules (17 CFR Part 420). The notice calling for Large Position Reports is also being published in the Federal Register. This press release, and a copy of a sample Large Position Report which appears in Appendix B of the rules at 17 CFR Part 420, can be obtained from Treasury's automated fax system by calling (202) 622-2040 and requesting document number 1737. These documents are also available at the Bureau of the Public Debt's Internet site at the following address: http://www.publicdebt.treas.gov.

Questions about Treasury's large position reporting rules should be directed to Public Debt's Government Securities Regulations Staff at (202) 219-3632. Questions regarding the method of submission of Large Position Reports may be directed to the Market Reports Division of the Federal Reserve Bank of New York at (212) 720-8021.

Appendix B to Part 420 - Sample Large Position Report.
Formula for Determining a Reportable Position
($ Amounts in Millions at Par Value as of Trade Date)

Security Being Reported: ____________
Date For Which Information is Being Reported: ____________

1. Net Trading Position — $____________
   (Total of cash/immediate net settled positions; net when-issued positions; net forward positions, including next day settling; net futures contracts that require delivery of the specific security; and net holdings of STRIPS principal components of the security.)

2. Gross Financing Position — + $____________
   (Total of securities received through reverse repos (including forward settling reverse repos), bonds borrowed, collateral for financial derivative transactions and for other securities transactions which total may be reduced by the optional exclusion described in § 420.2(c).)

3. Net Fails Position — + $____________
   (Fails to receive less fails to deliver. If equal to or less than zero, report 0.)

4. TOTAL REPORTABLE POSITION — = $____________

Memorandum: Report one total which includes the gross par amounts of securities delivered through repurchase agreements, securities loaned, and as collateral for financial derivatives and other securities transactions. Not to be included in item #2 (Gross Financing Position) as reported above.

$____________

Administrative Information to be Provided in the Report

Name of Reporting Entity:
Address of Principal Place of Business:
Name and Address of the Designated Filing Entity:
Treasury Security Reported on:
CUSIP Number:
Date or Dates for Which Information Is Being Reported:
Date Report Submitted:
Name and Telephone Number of Person to Contact Regarding Information Reported:

Name and Position of Authorized Individual Submitting this Report (Chief Compliance Officer; Chief Legal Officer; Chief Financial Officer; Chief Operating Officer; Chief Executive Officer; or Managing Partner or Equivalent of the Designated Filing Entity Authorized to Sign Such Report on Behalf of the Entity):

Statement of Certification: "By signing below, I certify that the information contained in this report with regard to the designated filing entity is accurate and complete. Further, after reasonable inquiry and to the best of my knowledge and belief, I certify: (i) that the information contained in this report with regard to any other aggregating entities is accurate and complete; and (ii) that the reporting entity, including all aggregating entities, is in compliance with the requirements of 17 CFR Part 420."

Signature of Authorized Person Named Above:

DEPARTMENT OF THE TREASURY

Government Securities: Call for Large Position Reports

AGENCY: Office of the Under Secretary for Domestic Finance, Treasury.

ACTION: Notice.

SUMMARY: The Department of the Treasury ("Department" or "Treasury") called for the submission of Large Position Reports by those entities whose reportable positions in the 6-1/4% Treasury Notes of February 2007 equaled or exceeded $2-1/2 billion as of close of business June 6, 1997.

DATES: Large Position Reports must be received before noon Eastern time on June 13, 1997.

ADDRESSES: The reports must be submitted to the Federal Reserve Bank of New York, Market Reports Division, 4th Floor, 33 Liberty Street, New York, New York 10045; or facsimile 212-720-8028.

FOR FURTHER INFORMATION CONTACT: Ken Papaj, Director, or Kerry Lanham, Government Securities Specialist, Bureau of the Public Debt, Department of the Treasury, at 202-219-3632.

SUPPLEMENTARY INFORMATION: Pursuant to the Department's large position rules under the Government Securities Act regulations (17 CFR Part 420), the Treasury, in a press release issued on June 9, 1997, and in this Federal Register notice, called for Large Position Reports from those entities whose reportable position in the 6-1/4% Treasury Notes of February 2007, Series B-2007, equaled or exceeded $2-1/2 billion as of the close of business Friday, June 6, 1997. The call for Large Position Reports is a test. Entities whose reportable positions in this 10-year note equaled or exceeded the $2-1/2 billion threshold must report these positions to the Federal Reserve Bank of New York. Large Position Reports, which must include the required position and administrative information, must be received by the Market Reports Division of the Federal Reserve Bank of New York before noon Eastern time on Friday, June

13, 1997. The Reports may be filed by facsimile at (212) 720-8028 or delivered to the Bank at 33 Liberty Street, 4th floor.

The 6-1/4% Treasury Notes of February 2007 have a CUSIP number of 912827 2J 0, a STRIPS principal component CUSIP number of 912820 BW 6, and a maturity date of February 15, 2007.

The press release and a copy of this Federal Register notice calling for the Large Position Reports, and a copy of a sample Large Position Report which appears in Appendix B of the rules at 17 CFR Part 420, can be obtained by calling (202) 622-2040 and requesting document number 1737. These documents are also available at the Bureau of the Public Debt's Internet site at the following address: http://www.publicdebt.treas.gov.

Questions about Treasury's large position reporting rules should be directed to Public Debt's Government Securities Regulations Staff at (202) 219-3632. Questions regarding the method of submission of Large Position Reports may be directed to the Market Reports Division of the Federal Reserve Bank of New York at (212) 720-8021.

The collection of large position information has been approved by the Office of Management and Budget pursuant to the Paperwork Reduction Act under OMB Control Number 1535-0089.

Dated: June 6, 1997

John D. Hawke, Jr.

Under Secretary, Domestic Finance

[Billing Code: 4810-39-W]

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
June 9, 1997

Lawrence H. Summers
Deputy Secretary of the Treasury
Remarks on Inflation Indexed Securities

Good morning. Thank you for coming. I am pleased to report on the progress of Treasury's indexed securities program and to discuss continued plans for it. In January of this year, following extensive internal analysis and a long period of consultations with market participants, Treasury introduced a new form of funding for the government in the form of inflation-indexed securities. These securities offer a return that is indexed to the consumer price index. In introducing these securities our goals were to provide an instrument that would offer guaranteed future purchasing power to American savers, to reduce and make more stable government's funding costs and to spur development of the capital markets. We have been pleased with the market response. In January, we auctioned $7 billion in securities and in May we sold an additional $8 billion for a total of $15 billion in ten year inflation-indexed notes, maturing in January of 2007. A liquid market has developed with bid-asked spreads comparable to those of off-the-run Treasury securities. More than $2 billion of follow-on issuance has taken place by government agencies, corporations and municipal issuers. At least five mutual fund companies have offered products based on indexed securities, and there has also been interest from insurance companies and pension funds.

The success of our first issue demonstrates the strong demand for this product. But, as we announced at the outset, this is a long term project and a long-term commitment that is still in its opening stages. When we launched this program, we announced that we would introduce new series with new maturities in the future. And today, I would like to describe the offerings we have planned for the immediate future.

In July, we will offer our first inflation indexed securities with a five year maturity. They will come due in July 2002.

In October, we expect to re-open this issue and again offer July 2002 securities.

Next January, we expect to offer a new 10-year indexed note.

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Also during next year, we will offer a 30-year inflation indexed bond.

And by the end of next year, we expect to establish a regular schedule for offering inflation-indexed securities with maturities of five, ten and thirty years.

These new maturities and our commitment to move toward a regular schedule for offering a mix of maturities are important steps in the development of this program.

A further development is that due to the falling level of the deficit which is expected to drop below $100 billion this year as well as the growth of the inflation-indexed security program, we will cease offering conventional ten year notes in the months of July and October, effective immediately.

I would now be happy to answer any questions you may have.

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
June 9, 1997

Contact: Rebecca Lowenthal
(202) 622-2960

TREASURY AND FEDERAL RESERVE OFFICIALS TO PREVIEW NEW $50 BILL
Series 1996 note will include low-vision feature

Secretary Rubin will join Federal Reserve Board Chairman Alan Greenspan and U.S. Treasurer Mary Ellen Withrow to preview the Series 1996 $50 bill in a ceremony at 9:30 a.m., Thursday, June 12 at the Visitors' Center of the Bureau of Engraving and Printing at 14th and C Streets, S.W., Washington, D.C.

The Series 1996 $50 note is the second in the U.S. currency series to incorporate new and modified security features. The new $100 note was issued in March 1996, and the new $50 note will enter circulation this fall. The $50 note will also include a feature that will make the note more accessible to all Americans, especially the aging population and low-vision community. Patricia Beattie, First Vice President of the Council of Citizens with Low Vision International, will also participate in the Thursday morning ceremony.

Following the ceremony, senior Treasury and Federal Reserve officials will hold a background briefing for the press. A press pool will also be permitted to view the printing of the new $50 bill, and B-roll will be available.

At 2 p.m. on Thursday, Treasury Under Secretary John D. Hawke, Jr., Treasurer Withrow and Ernest G. Patrikis, First Vice President of the Federal Reserve Bank of New York, will preview the new note in New York City at The Lighthouse Inc., 111 East 59th Street, Manhattan. The Lighthouse Inc., an international organization providing services and programs for people with low vision, will host the event; Lighthouse President Dr. Barbara Silverstone will also participate.

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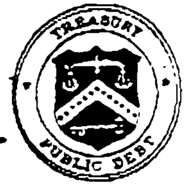
AUCTION RESULTS

PUBLIC DEBT NEWS



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

FOR IMMEDIATE RELEASE
June 9, 1997

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for $7,065 million of 13-week bills to be issued June 12, 1997 and to mature September 11, 1997 were accepted today (CUSIP: 9127945M2)

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	4.93%	5.06%	98.754
High	4.95%	5.08%	98.749
Average	4.94%	5.07%	98.751

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	$47,019,505	$7,064,793
Type		
Competitive	$45,462,048	$5,507,336
Noncompetitive	1,252,457	1,252,457
Subtotal, Public	$46,714,505	$6,759,793
Foreign Official Institutions	305,000	305,000
TOTALS	$47,019,505	$7,064,793

In addition, $3,334,327 thousand was awarded to the Federal Reserve Banks for their own accounts.

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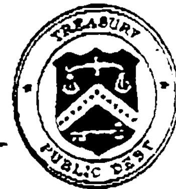
AUCTION RESULTS

PUBLIC DEBT NEWS



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

FOR IMMEDIATE RELEASE
June 9, 1997

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for $7,052 million of 26-week bills to be issued June 12, 1997 and to mature December 11, 1997 were accepted today (CUSIP: 9127942X1).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	5.18%	5.39%	97.381
High	5.20%	5.41%	97.371
Average	5.20%	5.41%	97.371

Tenders at the high discount rate were allotted 26%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$38,005,664	$7,051,958
Type		
Competitive	$34,412,300	$3,458,594
Noncompetitive	1,127,364	1,127,364
Subtotal, Public	$35,539,664	$4,585,958
Foreign Official Institutions	2,466,000	2,466,000
TOTALS	$38,005,664	$7,051,958

In addition, $3,895,000 thousand was awarded to the Federal Reserve Banks for their own accounts.

5.19 - - 97.376

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED UNTIL 10 A.M. EDT
Text as Prepared for Delivery
June 10, 1997

TREASURY OFFICE OF FOREIGN ASSETS CONTROL DIRECTOR
R. RICHARD NEWCOMB
HOUSE JUDICIARY SUBCOMMITTEE ON CRIME

GENERAL BACKGROUND

The Office of Foreign Assets Control (OFAC) administers economic sanctions and embargo programs against specific foreign countries or groups to further U.S. foreign policy and national security objectives. In administering these programs, OFAC generally relies upon Presidential authority contained in the Trading With the Enemy Act (TWEA) or the International Emergency Economic Powers Act (IEEPA), or upon specific legislation, to prohibit or regulate commercial or financial transactions with specific foreign countries or groups.

Examples of current TWEA programs include comprehensive asset freezes and trade embargoes against North Korea and Cuba. Examples of current IEEPA programs include similarly broad sanctions against Libya, Iraq, the Cali Cartel, and certain foreign terrorist groups, as well as comprehensive trade sanctions against Iran.

From time to time, sanctions have been imposed by Congress directly through legislation. Between 1986 and 1991, for example, OFAC administered the trade and investment prohibitions against South Africa mandated by the Comprehensive Anti-Apartheid Act. Similarly, OFAC has been delegated administration of Section 321 of the Antiterrorism and Effective Death Penalty Act of 1996 (the Act), which was signed into law by the President on April 24, 1996.

SECTION 321

Section 321 of the Act prohibits all financial transactions by United States persons with the governments of terrorism-supporting nations designated under section 6(j) of the Export Administration Act, except as provided in regulations issued by the Secretary of Treasury, in

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consultation with the Secretary of State. The Act prohibited all financial transactions by U.S. persons with: North Korea, Cuba, Iran, Libya, Iraq, Syria, and Sudan.

All but Syria and Sudan were the subject of existing comprehensive financial and trade embargoes at the time of enactment. In accordance with foreign policy guidance provided to Treasury by State, existing sanctions programs against North Korea, Cuba, Iran, Libya, and Iraq were continued without change. This permitted the specific policies developed over time with respect to each of these countries to remain in effect, including the exceptions to each embargo dictated by unique humanitarian, diplomatic, news gathering, intellectual property, and other concerns.

New regulations, known as the Terrorism List Governments Sanctions Regulations, were issued August 23, 1996 to impose the prohibitions on financial transactions with respect to Syria and Sudan. While most transactions are currently authorized, the new regulations, drafted in consultation with the Department of State, do prohibit financial transactions which involve transfers from those governments in the form of donations and transfers with respect to which U.S. persons know or have reasonable cause to believe that there is a risk of furthering terrorist acts in the United States.

From a sanctions enforcement perspective, we believe the Act and implementing regulations are important because they provide OFAC with comprehensive jurisdiction over all financial transactions between U.S. persons and the Governments of Syria and Sudan. We now have authority to act to stop or impede any particular suspicious transfer to or from these governments by informing U.S. persons handling the transfer that a reasonable cause exists to believe that the transaction may pose a risk of furthering terrorist activity in the United States. We believe the Act's authority provides a significant new tool to prevent funding of terrorist activities in the U.S.

H.R. 748

H.R. 748 would amend the current law, section 321 of the Antiterrorism Act, to repeal all Executive flexibility in administering the prohibition on financial transactions against terrorism supporting governments, permitting only transactions incident to routine diplomatic relations among countries.

This codification would drastically alter pre-existing sanctions programs against five of the seven terrorism-supporting governments, and seriously infringe the President's ability to conduct foreign policy and use sanctions to respond quickly and flexibly to changing situations in embargoed countries.

OFAC's function is to implement and enforce sanctions programs. For that reason, my comments are addressed to sanctions administration, and the vital role that licensing plays in the successful implementation of our programs. Our sanctions programs on the seven countries

designated by the State Department as supporting international terrorism are quite diverse, and carry different foreign policy guidance. Without the ability -- through general and specific licenses -- to tailor sanctions programs to the real world and to wholly unforeseeable situations that arise daily, sanctions' usefulness would be lost as an instrument for the defense of U.S. foreign policy, national security, and economic interests.

In each of our economic sanctions programs on terrorist countries, the scope of the prohibitions and of OFAC licensing policy and practice responds to specific national security, foreign policy or economic conditions. In the case of Iran, we have administered a full blocking of government assets with comprehensive trade sanctions (1979-81), import prohibitions (1987-95), and comprehensive sanctions on trade in goods and services without the blocking of assets (May 1995-date). In sanctions on Cuba (1963-date) and North Korea (1950-date), we have administered comprehensive blocking and trade sanctions applicable both to the governments and all nationals of these countries. With respect to Libya (1986-date) and Iraq (1990-date), comprehensive blocking of government assets and trade sanctions are in place. However, unlike Cuban and North Korean nationals, Libyan and Iraqi nationals' assets are not blocked. Pursuant to United Nations sanctions, transfers to persons in Iraq are prohibited. There are prohibitions against travel transactions to Libya, Iraq, and Cuba, but travel transactions are permitted by general license under the North Korean sanctions, and are exempt by statute for Iran. These variations are not haphazard, but reflect the specific policy contexts in which each program has developed.

In each of these programs, general and specific licensing policies have been adopted to minimize unintended human suffering while accomplishing program goals and to reflect general interests of the United States.

Examples of the former include licenses permitting expenditures related to travel to visit sick and dying relatives in Cuba; permitting participation in amateur and nonpolitical international athletic competitions and people to people exchanges; allowing limited funds to be transferred to close relatives so that they can emigrate from Cuba; authorizing humanitarian relief for the people of North Korea and Iran suffering from natural disasters; permitting husbands, wives, sons and daughters to stay with their immediate families in Tripoli; dispensing U.S. vaccines to combat the outbreak of epidemics; bringing home the remains of Americans who have died overseas and administering decedents estates in target countries; allowing payments for boat repairs when a U.S. vessel has been blown into target country waters during a storm. The list goes on and on.

Among the authorizations serving U.S. interests are licenses permitting travel payments related to journalism; the compensation of successful U.S. claimants in the Iran-U.S. Claims Tribunal in The Hague from Iranian Government funds; reciprocal U.S. and target country intellectual property protection; payments when it is necessary to overfly target country airspace or for emergency landings; the acquisition and sale of publications, information and information materials; and a wide range of humanitarian donations, remittances, family payments, and travel-

related transactions.

In removing licensing authority over financial transactions by U.S. persons with the governments of Cuba, Iran, Iraq, Libya, North Korea, Sudan and Syria, HR 748 would not only adversely affect the President in his Constitutional responsibility to conduct the foreign affairs of the United States, it would also eliminate OFAC's ability to make rational decisions about very human and often unforeseen events and cause great suffering for unintended and untargetted third parties.

Thank you.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED UNTIL 2:30 P.M.
June 10, 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 be issued June 19, 1997. This offering will result in a paydown for the Treasury of about $4,075 million, as the maturing publicly-held weekly bills are outstanding in the amount of $18,067 million.

In addition to the public holdings, Federal Reserve Banks for their own accounts hold $6,704 million of the maturing bills, 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 $3,163 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.

oOo

Attachment

RR-1743

HIGHLIGHTS OF TREASURY OFFERINGS OF WEEKLY BILLS
TO BE ISSUED JUNE 19, 1997

June 10, 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 2U 7	912794 5X 8
Auction date	June 16, 1997	June 16, 1997
Issue date	June 19, 1997	June 19, 1997
Maturity date	September 18, 1997	December 18, 1997
Original issue date	September 19, 1996	June 19, 1997
Currently outstanding	$31,842 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 Daylight Saving time on auction day

Competitive tenders . . . . Prior to 1:00 p.m. Eastern Daylight Saving 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
June 10, 1997

Contact: Michelle Smith
(202) 622-2960

U.S., BALTIC REPUBLICS INITIAL THREE BILATERAL INCOME TAX TREATIES

The Treasury Department announced on Tuesday that delegations from the United States and Estonia, Latvia and Lithuania have reached agreement, subject to review, on three bilateral income tax conventions.

The texts of the three conventions were initialed for the United States by Daniel M. Berman, Deputy International Tax Counsel of the U.S. Treasury Department. The Estonian treaty was initialed by Erle Koomets of the Estonian Ministry of Finance. The Latvian treaty was initialed by Andrejs Birums, head of the Unit for Tax Treaties in the Latvian Ministry of Finance. The Lithuanian treaty was initialed by Nora Vitkuniene, head of the International Treaties Division of the State Tax Inspectorate.

The initialings confirmed the mutual commitment of the four delegations to move forward as quickly as possible with the required review, followed by signature and ratification of the three Conventions. Each treaty will enter into force following completion of the ratification process by both countries.

Donald C. Lubick, Acting Assistant Secretary of the Treasury (Tax Policy) welcomed the initialing as bringing into the U.S. tax treaty network three countries that have regained their freedom and are expanding their economic cooperation with the West.

The text of each new Convention will be made public after its signature.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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June 12, 1997

THE SERIES 1996 $50 NOTE
DOCUMENTS AVAILABLE BY FAX

Document #	Document name
1746	Press release: U.S. Treasury and Federal Reserve Introduce New $50 Bill. Redesigned note includes low-vision feature
1754	Remarks by Federal Reserve Board Chairman Alan Greenspan
1755	About the Series 1996 Currency (8 pages)
1756	About the Bureau of Engraving and Printing, U.S. Secret Service and Counterfeiting, The Federal Reserve System (7 pages) (includes addresses of local Federal Reserve banks and branches)
1757	Order form for $50 bill posters and brochures (1 page)
1758	The History of Paper Money (3 pages)
1759	Remarks of U.S. Treasurer Mary Ellen Withrow

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED FOR RELEASE AT 9:30 A.M. EDT
June 12, 1997

Contact: Office of Public Affairs
(202) 622-2960

U.S. TREASURY AND FEDERAL RESERVE INTRODUCE NEW $50 BILL
Redesigned note includes low-vision feature

Treasury Secretary Robert E. Rubin and Federal Reserve Board Chairman Alan Greenspan announced today the United States will issue a redesigned $50 note that includes a feature making the note more accessible to all users of U.S. currency, especially the aging population and low-vision community. The new note will be issued in the fall of 1997, and is the second in the U.S. currency series to include new and modified security features to stay ahead of advances in reprographic technology.

The redesigned $50 note and consequent denominations will include a large dark numeral on a light background on the back of the note that will make it easier for the more than 3.7 million Americans with low vision to denominate the note. The feature will also be useful to the 10 million Americans with milder forms of visual impairment and other users of U.S. currency in low-light situations. In a January 1995 study solicited by the Treasury Department's Bureau of Engraving and Printing, the National Academy of Sciences recommended incorporation of the feature.

Last year's introduction of a new design was a critical and effective step in an ongoing process to maintain the security of the nation's currency as technologies such as color copiers, scanners and printers become more sophisticated and accessible. In the new note's first year, the U.S. Secret Service identified counterfeit Series 1996 $100 notes only 1/18 as often as older series $100s. By the end of the first year, however, new series notes represented over a third of all $100s in circulation.

The addition of a feature for those with low vision to identify readily the note's denomination is equally significant. All consequent denominations ($20, $10, etc.) will include this low-vision feature, as will future redesigns of the $100 note. The redesigned $20 will be issued next year.

"With this redesign, government demonstrates its ability to stay ahead of the technology curve and meet the needs of all those people around the world who use and trust our currency," Secretary Rubin said. "At the same time, the new notes retain their basic American look and feel."

The new series $100 bill was issued in March 1996. Like the $100, the new $50 will replace the older series notes gradually in circulation; as older notes reach the Federal Reserve from depository institutions, they will be replaced by the newer notes. About $46.5 billion in $50 notes is currently in circulation. Secretary Rubin and Chairman Greenspan stressed the United States will not recall or devalue any of the existing currency.

RR-1746

For press releases, speeches, public schedules and official biographies, call our 24-hour fax line at (202) 622-2040

"We expect as smooth an introduction process as we experienced last year, when millions of users of U.S. currency embraced the new $100 notes," Chairman Greenspan said. "As with the $100 note, older notes will not be recalled or devalued."

In order to make room for the new features, the overall architecture of the note has been changed somewhat and the borders simplified. Microprinting and security threads, which first appeared in the 1991 series currency, have been effective deterrents and will appear in the new notes. The new and modified $50 note features include:

- A large numeral "50" on the back of the note.
- A larger portrait, moved off-center to create more space for a watermark.
- The watermark to the right of the portrait depicting the same historical figure as the portrait. The watermark can be seen only when held up to the light.
- A security thread to the right of the portrait that glows yellow when exposed to ultraviolet light in a dark environment. "USA FIFTY" and a flag, which itself contains microprinting, are printed on the thread. (In the $100, the thread is to the left of the portrait and glows red, and is printed with the words "USA 100.")
- Color-shifting ink in the numeral on the lower right-hand corner of the bill front that changes from green to black when viewed from different angles.
- Microprinting in the border and in Ulysses Grant's shirt collar in the $50 note. (In the $100 note, microprinting is found in the numeral in the note's lower left-hand corner and on Benjamin Franklin's lapel.)
- Concentric fine-line printing in the background of the portrait and on the back of the note. This type of printing is difficult to copy well.
- Other features for machine authentication and processing of the currency.

In addition to the low-vision feature on the note back, the $50 looks different in several other ways. The engraving of the Capitol has been enlarged to include more detail, and reflects an accurate contemporary view of the west front of the Capitol. The security thread images and characters are also printed in two different heights.

Over $400 billion in U.S. currency is in circulation, two-thirds of it overseas. The U.S. Information Agency and U.S. consular posts around the world will help educate foreign users of U.S. currency about the redesign program.

Fact sheets on the new note, the history of U.S. currency and related agencies are available on Treasury's interactive fax at (202) 622-2040 (for an index, request document # 1745) and on the Treasury's website: www.ustreas.gov/treas/whatsnew/.

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THE LOW-VISION FEATURE ON THE $50 BILL

There are approximately 3.7 million[1] Americans with visual disabilities, and as many as 10 million[2] Americans with milder forms of visual impairment. The Series 1996 $50 bill contains an important new universal design feature that will make United States currency more accessible to all Americans, especially the aging population and the low-vision community.

The $50 bill has been redesigned to improve its security against counterfeiting and shares the overall architecture of the Series 1996 $100 bill released in March 1996 -- an off-center portrait, watermark, security thread and fine-line concentric printing and microprinting. It also incorporates a large dark numeral "50" on a light background in the lower right hand corner of the back of the note that will make the note's denomination easier to identify.

The Bureau of Engraving and Printing (BEP), which manufactures the nation's currency, contracted with the National Academy of Sciences for a study of currency features to assist the visually impaired. One of the January 1995 report's principal recommendations was to incorporate a larger dark-colored numeral on a light background to currency designs. A new design task force representing Treasury, the Bureau of Engraving and Printing, the U.S. Secret Service and the Federal Reserve agreed that a high-resolution feature would be useful to those with low vision, and could be easily incorporated into the new series design without compromising the improved security of the new notes. The task force concluded that other recommended changes, including variations in size and shape, holes and other tactile features, were not sufficiently durable to be practicable for U.S. currency at this time. Asked by BEP to assess the feature, the University of Minnesota's Laboratory for Low-Vision Research has concluded that the substantially larger size and higher contrast of the numeral, as well as the uniformity of background, will be of substantial functional benefit to people with low vision and to anyone in dim lighting or other poor-visibility conditions. The nearly uniform stroke width in the new feature is also easier to read. The numeral is 14 millimeters (a little over one half inch) in height, compared with 7.8 millimeters on older series notes.

The Treasury Department and the numerous groups representing Americans with low vision who reviewed the feature believe it is an important step in making currency more accessible to everyone. The feature has been included in the Series 1996 $50 note design at no cost and will appear on subsequent redesigned notes in the series. The Bureau of Engraving and Printing continues to evaluate the NAS recommendations to determine whether other changes in currency design could make the note even more accessible, especially to blind people.

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[1] The precise number is subject to definition. This number is from the National Academy of Sciences.

[2] This estimate is from the University of Minnesota's Laboratory for Low-Vision Research.

DEPARTMENT OF THE TREASURY
TREASURY NEWS
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June 10, 1997

AMERICAN GLOBAL LEADERSHIP: THE DENVER SUMMIT AND BEYOND
DEPUTY TREASURY SECRETARY LAWRENCE H. SUMMERS
WORLD TRADE CONFERENCE
DENVER

Good afternoon. It is a pleasure to be here in Denver on the eve of the Summit. It is symbolic that this Summit will be held in Denver, for Denver is an example of how trade and economic integration now touch every part of the world. This evening, I would like to begin by discussing the current state of the US and how that relates to the Summit. In turn, I would like to discuss some of the key issues that I expect this Summit to address. Finally, I would like to discuss why it is so important that America play a leadership role in the global economy.

US Leadership in the Global Economy

The United States today is in an extremely strong position. We are the only military superpower. It is increasingly clear that we are also the world's only economic superpower. In an era of globalization, we are the world's most flexible and dynamic economy. And we are uniquely positioned to interact with the emerging world due to our global reach, the diversity of our people and the flexibility of our institutions.We dominate or lead in virtually every post-industrial industry. Think of Microsoft in software, Federal Express in shipping or Nasdaq in financial services.

We are currently enjoying the strongest US economic performance in a generation. Over the last four years, we've cut the budget deficit by two thirds so that today we have the lowest deficit among summit participants. That's paid off in the highest level of capital spending in three decades, higher productivity and over 12 million new jobs which has brought unemployment to 4.8%, its lowest level in 24 years.

The Danger of Inaction

The strong position we are in benefits the American people. But it also gives us a new authority on the world stage and an opportunity to shape a world of our making. In an era of
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globalization where national borders no longer define the boundaries of economies, we can use our position to encourage the free flow of goods, capital, technology and ultimately wealth across the globe. That will improve standards of living and create new markets for our goods.

At the same time, for the first time in a half century we have no obvious enemy. But, in a deeper sense, there is still an enemy. And that enemy as the President said in his State of the Union address is the enemy of inaction.

Peace abroad and prosperity at home provide us with the luxury of looking forward and taking proactive steps, rather than reacting to immediate concerns. With the end of the Cold War and globalization of the world economy, we have a historic opportunity to further strengthen the global system. That is not the work of one Summit meeting but what we do through the Summit process.

Many issues will be discussed here in Denver at the Summit, but this evening I would like to focus my comments on the following general challenges where the stakes for the United States are the greatest.

- Promoting growth and prosperity
- Reducing risks in global financial markets
- Advancing the process of development in the poorest countries; and
- Integrating Russia into the global economy.

Promoting Economic Growth and Prosperity

Apart from securing our borders, government has no more important task than creating the conditions for growth and prosperity. Growth reduces crime, moves people from welfare to work, permits greater investments in education, funds advances in medicine and health care and increases our level of collective security. Only when people have fulfilled their needs economically can they begin to reach their full potential as human beings.

The Summit leaders come to Denver facing shared challenges common to all the major industrial economies.

In every industrialized country, governments are searching for ways to address the profound economic and social effects caused by the aging of our societies. This demographic shift is more acute and comes earlier in some countries in others, but we will all face major challenges in financing the pensions and health care of our older citizens. The Summit will provide an opportunity for the leaders to share experiences and discuss innovative ways of addressing these challenges.

The Summit leaders also face a common challenge in deciding how best to deal with structural changes in their economies, such as those caused by technological change and expanding trade. These are not changes that can be resisted effectively without imposing huge costs on society

in terms of high unemployment and foregone growth. The only sure way to confront them effectively is to provide the degree of flexibility necessary for companies to adapt, for capital to seek out new opportunities, and for workers to be able to obtain the education and training necessary to work in the industries of the future.

The participants in the summit face these challenges from different starting points and different strengths and weaknesses.

Japan, the world's second largest industrial economy, is just starting to emerge from five years of economic trauma associated with the collapse of the asset price bubble of the late 1980s. The economic model that proved quite successful in generating decades of high growth following the war appears much less well suited to the demands of the post-industrial age.

This recognition lies behind a sweeping program of deregulation and reform launched by the Prime Minister. The test of this effort will lie in the degree to which it succeeds in removing regulations that stifle innovation, in opening Japan's market to more competition from abroad, in creating a financial system that will channel capital to new industries, all of which will be important to generate the growth necessary to finance the aging of Japanese society.

While we are waiting for all this to happen, we have a strong interest in seeing the Prime Minister achieve his stated objective of a strong domestic demand led recovery and avoiding an increase in Japanese external surplus on a scale that could hurt global growth and fuel protectionism.

The governments of Continental Europe are also in the midst of a complex economic and political transition, but with different dimensions from that in Japan. While the headlines focus on the plumbing of creating monetary union and achieving the convergence criteria established by the architects of the Maastricht treaty, the most important debate in Europe is over how to create an economy that is flexible enough to respond to the competitive pressures produced by technological change and economic integration.

The paradox of monetary union is that creating a single currency will not by itself address any of these problems and yet the success of the entire endeavor of monetary union will depend on whether the governments of Europe can succeed in addressing these deeper structural problems that lie behind the highest levels of unemployment in more than a generation.

It is heartening to see that the new British government under the leadership of Tony Blair is focused on meeting the challenges posed by the forces shaping the global economy. Employability--the ability of people to secure the skills they need in the economy of the future--is at the top of his agenda. Just as President Clinton has recognized the importance of investing in people, the new Labor agenda emphasizes education, training and flexible labor markets as the key to insuring that all citizens are able to share in the prosperity of a dynamic

economy. As a measure of how important these issues are, the President and the Prime Minister proposed holding a special summit on the subject of employability next year.

Reducing Risk in Financial Markets

The second challenge that the Summit leaders must address is that of how to cope with the risks to global financial stability that have accompanied the benefits of financial integration.

In today's markets, financial crises in one county can threaten stability and prosperity in countries half way around the world. And the failure of a large global financial institution could damage many of its counterparts.

The Mexican financial crisis, the collapse of Barings, the market manipulations of a Sumitomo copper trader and the collapse of banking systems throughout the developing and developed world have all provided impetus to a broad international effort to strengthen financial safeguards in the system.

At the Halifax summit two years ago, the Summit leaders endorsed a set of proposals to reduce the risk of future crises and to improve our capacity to manage those we fail to prevent. The most significant of these were strong disclosure standards to make it easier for market participants to asses risks and the new arrangement to borrow which doubles the IMF's reserve tank. Last year in Lyon, the Summit leaders launched new initiatives to strengthen emerging market financial systems and to strengthen the regulatory system in the major financial centers.

In Denver, you'll see the fruits of this effort in several areas including:
- Steps towards the establishment of a multilateral network of supervision appropriate to today's global markets and global institutions.
- Progress towards a framework of strong supervisory principles for the major globally active financial institutions
- New steps to improve transparency
- Steps to reduce risk in payment and settlement systems; and
- Endorsement of a concerted international strategy to assist emerging economies in strengthening their financial systems, including a new, universally applicable set of core principles for effective banking supervision.

These initiatives will help reduce the risks and costs of future crises.

The Challenge of Development

The third challenge on the Summit agenda is the challenge of development.

Today, democracy and free market principles are on the march around the world and, where they have gone, development and prosperity have followed. Increasing openness and

integration are creating new opportunities for increased prosperity by allowing countries to specialize in those economic activities which they do best while promoting increased competition and efficiency.

Never before has there been such dynamism in the developing part of the world. Developing Asia today buys more of our goods than Europe. In Latin America, every country but one is now a democracy and, after a lost decade, growth has returned to the region. In the transition economies of Europe, a new orthodoxy of reform is paving the way for growth. The integration of over 400 million people in Central Europe and the Former Soviet Union into the world economy is a development with few parallels in history.

Only one region of the world has been left behind: Africa. Approximately 600 million people or one tenth of the world's population have yet to fully participate in the global economy and reap the benefits of integration. Over the past six years, Sub-Saharan Africa received on average only 2.2 percent of net private capital flows to developing countries.

- However, having just returned from the region I can say that, in many ways, there are stronger grounds for optimism in sub-Saharan Africa today than at any time in a generation.
- Elections in more than 20 countries show that democracy can take root in Sub-Saharan Africa. And as war and conflict have receded, growth has taken hold. Uganda grew by 10 percent in 1995 and Ethiopia by an estimated 12.5% in the last year.

To further this progress, the Summit leaders will endorse a broad international effort to strengthen growth and development in Africa. Like our own efforts within the US government to forge a new Partnership for Economic Growth and Opportunity with Africa, this strategy will have two important dimensions:

- First, to further integrate Africa with the global economy, we will endorse efforts to improve access to markets for African exports.
- Second, the International Financial Institutions including the World Bank and the IMF will provide financing in support of reforms that encourage market opening and market principles as well as debt relief to poor countries that undertake bold reforms.

In addition to initiatives directed at Africa, the Summit leaders will endorse a broad strategy to fight corruption. I am struck by the fact that if you look under most banking crises, there's always a degree of fraud and abuse, and there's often a large amount of criminal activity.

Corruption threatens growth and stability in many other ways as well: by discouraging business, undermining legal notions of property rights and perpetuating vested interests.

The Summit of Eight is urging nations by year's end to participate in an international convention to criminalize bribery. The Summit leaders have also called on the Institutional Financial Institutions to help countries reduce incentives and opportunities for corruption.

Russia and Nato Enlargement

Finally, Denver marks a watershed in Russia's growing participation in the Summit Process.

This deepening of Russia's engagement in the Summit process reflects Russia's increased stature on the world stage and its heightened commitment to work in close partnership with the Seven. Russia has made significant progress in reshaping its economy. Having achieved macroeconomic stabilization, its task now is to create the conditions for sustainable growth. While it has far to go, 1997 has witnessed a renewed commitment to reform.

At the Helsinki Summit Presidents Clinton and Yeltsin committed to a joint initiative to stimulate investment and growth in Russia, deepen U.S. - Russian economic ties and accelerate Russia's integration into the international economic system.

President Yeltsin committed to work toward comprehensive tax reform, promotion of foreign investment, particularly in the energy sector, anti-crime laws, and ratification of the U.S.-Russia Bilateral Investment Treaty.

For our part, we are eager to see Russia take on the responsibilities of membership in international organizations. At Helsinki, the President pledged our best efforts to see Russia join the Paris Club in 1997, the World Trade Organization in 1998 and the Organization for Economic Cooperation and Development at an appropriate point in the future.

In its short existence the new economic team has moved swiftly, submitting both the new Tax Code and a revised 1997 spending plan to the Duma and issuing decrees on key structural reforms such as monopolies, housing, alcohol production and sales, and anti-crime measures. Early signs of success are that the stock market continues to hit new highs while interest rates on T-bills have sunk to under 2% per month. In addition, the Central Bank's international reserves continue to surge. In April and May alone, they have risen by more than $3 billion and now stand at about $19 billion.

In addition, last month, Russia and Nato took the historic step of establishing relations with one another. And Nato is currently considering applications by countries in Eastern Europe for admission. The enlargement of Nato offers the promise, not only of political but of economic security, and will create the conditions for further integration across the continent.

NATO enlargement will entail some costs which will be borne mainly by the new members and our European allies. But it will bring major economic benefits for these states, for Europe, and for American business. An enlarged NATO will strengthen the security environment in Central Europe, thereby ensuring that the region's robust economic growth can continue. Already, some $40 billion in foreign direct investment has flowed into Central Europe--one-quarter of it from the US--and we expect another $40 billion to be invested by the end of the decade.

NATO enlargement will also increase Russia's level of security and strengthen its integration with the global economy. With Russia's participation in the Summit and the enlargement of NATO, we are leaving the era of the Cold War even further behind and taking two important steps into a new era of ever-widening and deepening global integration.

Conclusion

In conclusion, this Summit, more than anything else, will be about promoting integration and prosperity around the world. That has been the guiding principle of the economic policy of this Administration and it is the guiding principle of the Summit process. But I would further suggest that it is US leadership that has been uniquely critical to moving this process forward.

The United States is the world's indispensable power. History has shown that whenever US leadership has ebbed, the momentum to move forward on integration has slowed. But when US leadership has been strong, the result has been cooperation, growth and prosperity. Our challenge is to be the world's first non-imperialist, outward looking, continental power.

One area where leadership is particularly important is within the International Financial Institutions. Surveys show that Americans believe that foreign aid should be held to under 10% of our budget. This reflects the mistaken belief that it is much higher. In fact, foreign assistance costs about 1 % of our budget. The International Financial Institutions cost only one tenth of that but yield far more in greater security and increased trade. By virtue of our leadership role in these organizations, they are leveraged ways to advance our interests and the principles of market-oriented reforms. Accordingly, it is vitally important that the US meet its obligations to these organizations. It is wrong for the wealthiest country in the world to be nearly $1 billion in arrears to these institutions.

The great challenge we face today is to maintain broad support for US international leadership. It is much harder than during the Cold War because there is no longer a Communist threat to motivate us and because 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.

Nevertheless, we are making significant progress. And with this Summit here in Denver, I am confident that we will take the next step toward strengthening our global economy.

I believe that if America can continue to lead, if we can remain a shining example to the rest of the world and if we can continue to drive this process forward, then it will truly be said when the history of this period is written, that the world's indispensable nation did what it had to do to maintain the prosperity and keep the peace.

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DEPARTMENT OF THE TREASURY

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TREASURY EXECUTIVE OFFICE FOR ASSET FORFEITURE
DIRECTOR JAN P. BLANTON
HOUSE JUDICIARY COMMITTEE

Mr. Chairman, and to all the members of the Committee, good morning. My name is Jan Blanton and I am the Director of the Department of the Treasury's Executive Office for Asset Forfeiture. I am pleased to appear before you today to offer our views on H.R. 1835 and the changes it would bring about in federal forfeiture. With your permission, I would like to make a brief opening statement after which I would be glad to answer any questions you or the other members may have.

When I was last privileged to appear before your committee almost a year ago to speak to the merits of a bill aimed at reforming civil asset forfeiture, I took as my theme the reasoned progress that the Congress and law enforcement together have made over the years in crafting and applying the forfeiture authorities we have today. That cooperative effort has put federal law enforcement in a position where it can go after the proceeds and instrumentalities of crime.

It has empowered us to be able to strike at the very core of criminal organizations. It has become a pivotal element in our overall enforcement strategy. And it has even benefitted the too often forgotten victims of criminal activity. In FY 1996, our Treasury Forfeiture Fund alone oversaw the return of over $50 million to the victims of financial fraud. In the current fiscal year, we likewise expect to return over 30 million taxpayer dollars recovered from a Medicare fraud scheme. Financial fraud and health care fraud - just two of the areas in which federal forfeiture helps the victimized.

We are neither unaware of nor insensitive to concerns that forfeiture law can and should be further refined. The citizens of the United States will be comfortable with federal forfeiture authorities as long as they have faith in the integrity of the program. That faith is best secured by the legislature's enactment of needed statutory changes and by the executive's development of program policies and guidance that reflect America's sense of fair play.

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We have taken important measures in a number of areas to ensure that we fulfill our end of this responsibility. In the last five years since the establishment of the Treasury Forfeiture Fund, we have listened attentively to the criticisms of forfeiture programs. While some of this has been directed to programs at the state and local level, we have heeded the valid complaints and we have tightened up our program. We have stressed comprehensive training for all Treasury forfeiture personnel - from our special agents and their supervisors to our seized property managers. We have underscored the importance of considered and responsible seizures and the need for pre-seizure planning that makes these possible. We have emphasized quality in seized property management so that value, whether it be forfeited or returned, is never carelessly diminished. And recognizing that justice delayed is often justice denied, we have directed Treasury law enforcement to keep on top of their forfeiture caseloads, especially with regard to the adjudication of administrative forfeitures.

We are doing whatever it takes to ensure that Treasury's forfeiture program always affords due process - that it strives to notify all affected parties, that it invites arguments against the intention to forfeit, that it accommodates the indigent and that it offers opportunities to achieve just resolutions short of forfeiture in appropriate cases. In short, we are striving not for advantage but for fairness.

How best to fulfill the other end of that responsibility for the public's faith in federal forfeiture authority is what we are here today to consider. Forfeiture law should ensure its recognition of basic protections afforded property rights. For instance, we share your support of the concept of a uniform innocent owner provision and of shifting the burden of proof in certain cases. But we must register our reservations about H.R. 1835.

These reservations center first upon how this bill would amend several sections of the Tariff Act of 1930, codified in Title 19 USC, by:

- raising the standard of proof from probable cause to clear and convincing evidence; and by,
- eliminating cost bonds to pursue a civil judicial proceeding.

We also have other reservations about how this bill would affect forfeiture authorities beyond Title 19 by:

- providing for appointment of counsel in any and all civil forfeiture actions;
- providing for the release of seized property prior to forfeiture if the seizure causes substantial hardship on a claimant; and
- providing for a cause of action to release property pending the completion of the forfeiture proceeding.

With regard to Title 19 civil forfeiture authorities, it is important to keep in mind that these involve statutes concerning national self-protection. The Customs forfeiture laws served as a template for much of the expanded criminal forfeiture authorities enacted during the last two decades. If the application of the Title 19 forfeiture model to other titles of the code has left some of these more recent forfeiture laws in need of changes, it is not because of inadequacies in the Title 19 model. Let's reform what needs to be fixed and not weaken the ability of the Treasury Department to protect the American public and hamstring federal law enforcement in its fight against drug trafficking, fraud and illegal arms trafficking at the border. Amending Title 19 is not the way to implement civil forfeiture reform. We submit that reform is best accomplished through our cooperative, measured efforts to implement changes in the appropriate body of statutes.

While we can appreciate the overall reform intentions of H.R. 1835 , we fear that its changes to Title 19 authorities will have a significant adverse impact on Treasury forfeiture activities. Customs laws codified in Title 19 are designed to prohibit the introduction of contraband items into the United States, protect intellectual property rights along with the public health and safety, facilitate trade and expedite the collection of import duties. In addition, at the border, our Customs Service stands in the place of numerous other federal agencies, enforcing hundreds of provisions of law protecting the well being of America's citizens.

It must be recognized that at the border Customs officers routinely detect goods being imported or exported in violation of law. Many of these violations make the goods subject to seizure and forfeiture. In such cases, Customs generally is not aware of all the facts and circumstances surrounding the importation or exportation, though it does have probable cause for the seizure and forfeiture. The Customs laws are designed around the fact that in this border environment owners of the goods are in the best position to come forward with an explanation of the transaction giving rise to the seizure. Accordingly, these laws require that in a judicial proceeding the government must establish probable cause for the forfeiture; only then does the claimant (who, again is in the best position to explain the facts surrounding the importation or exportation) have the burden of proving that the goods are not subject to forfeiture. Given that the time frame between seizure and forfeiture in these cases is very short, it is all the more important for the owners to come forward with exculpatory information as any other rule places the government at a tremendous disadvantage in border enforcement. The changes proposed by H.R. 1835 would compromise the ability of the United States Customs Service to fulfill its vital responsibilities, many of which include key support of our foreign policy and national security. Not only will this bill make it more difficult for the United States to deprive criminal violators of their ill-gotten proceeds but it will also directly diminish the ability of the Customs Service to enforce restrictions and prohibitions at the border.

We believe any bill must retain probable cause as the standard of proof under the Customs laws when they are applied to traditional Customs cases. Without that standard, Customs will be unable to accomplish the following seizures:

- rocket fuel from going to Iran
- vehicles carrying tungsten stolen from a bonded and sealed freight car from Canada
- 20,000 pairs of knock-off blue jeans illegally bearing a registered U.S. trademark
- dangerous food products
- adulterated or unlicensed drugs
- images of sexually exploited children
- illegal firearms
- unsafe consumer products
- the products of convict and slave labor
- hazardous substances
- pirated intellectual properties

All of these items threaten the safety, security and prosperity of the American people. International trafficking in them undermines the benefits to be realized from an increasingly open world economy. With free market economies proliferating and free trade agreements expanding, this is not the time to disarm critical law enforcement authorities at the border. Should such an unintended consequence of H.R. 1835 be permitted to occur, the green light to fair and honest progress in international trade would be a green light also to the unscrupulous and the corrupt.

Needed refinements today should not be allowed to obstruct the longstanding record of effectiveness in serving the best interests of American citizens. We are available to work with the Committee to help it strike a well-balanced reform that continues to ensure the faith of Americans in the fairness of our federal forfeiture program.

Mr. Chairman, this concludes my opening statement. I will be pleased to answer any questions you or the other members of the committee may have at this time. Thank you.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR IMMEDIATE RELEASE
June 3, 1997

Robert E. Rubin
Secretary of the Treasury
Remarks to the BEA Awards Reception
June 3, 1997

I'd like to welcome all of you to this reception for the winners of the Bank Enterprise Awards. These awards are part of an effort by the Clinton Administration to highlight innovative private sector projects to provide financial services to distressed communities.

I have long thought -- and I know President Clinton shares this belief -- that this country will never reach its full economic potential, unless we deal with the problems of the inner city. Just think of the difference it will make in terms of reducing the costs connected with social problems and increasing productivity if we can bring the residents of the inner cities into the economic mainstream.

The prerequisites for progress fall into three categories: investment in people, through education, and training; public safety; and economic development. At Treasury, we are energetically involved in the last point, by bringing our broad expertise in the capital markets to bear on these issues. One of the most important components of this is the CDFI Fund. The Administration has fought hard to gain funding from Congress for the CDFI and I am pleased to note that in the President's current budget there is $125 million earmarked for this fiscal year and $1 billion over five years. One of the achievements we had in our budget negotiations with the Republican leadership is that they have agreed that, no matter what the shape of the final budget is, that amount for CDFI is a protected investment.

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. The private sector is the critical element in inner city development.
RR--1749

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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.

The CDFI Fund has two main programs, a CDFI program for specialized community development financial institutions and a BEA program for mainstream banks and thrifts. The BEA program complements the CDFI program by rewarding the financial institutions that are increasing their lending and providing more financial services in distressed communities. The BEA awards are given only after the activities have been implemented successfully, to ensure that only completed activities are recognized and that the Fund's limited dollars are effectively leveraged with private capital. The 38 banks and thrifts that received awards under the first round of the BEA program include institutions located in 18 states and the District of Columbia. These institutions provided nearly $66 million in support for CDFIs and $60 million in direct lending and services in some of the nation's most distressed communities.

This year we have received over 70 applications for the second round, up from 54 last year -- a clear signal that more banks and thrifts are interested in reaching out to their communities and CDFIs. Activities by the applicants would result in a total level of $90 million in investment and support for 96 different community-based institutions, as well as $28 million in lending and services provided directly by the banks and thrifts in distressed communities. The second round of awards will be made in the early fall, after the proposed activities have been completed.

One of the exciting developments of the BEA program is that many of the awardees are choosing to reinvest the awards they receive for past efforts back into community development projects. They are by no means required to do so. In this way, the CDFI Fund is getting increased private sector leverage for federal dollars.

Citibank, for example, which was awarded $227,250 for providing investments of $1.5 million to 13 organizations serving distressed communities throughout the United States, is using its award for activities that help build the capacity and skills of CDFIs.

Republic National Bank of New York was awarded a grant for providing loans and operating grants totaling over $5 million to 21 community development organizations serving New York City and the nation. I'm pleased to announce that Republic will now use its BEA grant to leverage an additional $5 million in economic development and small business lending in low and moderate income communities.

In California, Bank of America's Community Development Bank made nearly $25 million in multi-family housing, commercial real estate and business lending in distressed neighborhoods across the state. This lending is expected to generate more than 185 units of affordable housing and 300 jobs.

Now, with $1.1 million of its BEA award, I'm pleased to announce that the Bank will launch a new national program to train professionals in community-based development organizations.

Finally, Key Bank, located in Portland, Maine, for example, was awarded $37,500 for making a $250,000 investment in Coastal Ventures Limited Partnership, which will create jobs by providing venture capital to small businesses for start-up and expansion. Key Bank plans to use its entire award for community development purposes -- part will support a Small Business Information Center in Lewiston, in partnership with the U.S. Small Business Administration and part will capitalize an affordable housing loan pool.

Let me conclude by congratulating all the award winners. The examples I cited -- as well as the those of the other award winners -- show that our efforts are paying off. The partnerships between the private sector and government that we are creating are fostering a synergy to promote growth in distressed economic areas. And that is a very good investment in the long-term economic well being of not only the people who live in those areas, but all of us. Thank you very much.

DEPARTMENT OF THE TREASURY

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FOR IMMEDIATE RELEASE
June 11, 1997

Contact: Rebecca Lowenthal
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MEDIA ADVISORY ON NEW $50 NOTE

FOREIGN PRESS CENTER BRIEFING SCHEDULED
B-ROLL AVAILABLE VIA SATELLITE THURSDAY

Secretary Rubin will join Federal Reserve Board Chairman Alan Greenspan and U.S. Treasurer Mary Ellen Withrow to preview the Series 1996 $50 bill in a ceremony at 9:30 a.m., Thursday, June 12 at the Visitors' Center of the Bureau of Engraving and Printing at 14th and C Streets, S.W., Washington, D.C.

Press planning to attend this event must call the Office of Public Affairs at (202) 622-2960 by 6 p.m. today, Wednesday, June 11 with the following information: name of your press organization, number of people attending and type of equipment.

Treasury Deputy Assistant Secretary (Federal Finance) Roger Anderson and William Stone, First Vice President of the Federal Reserve Bank of Philadelphia, will hold a briefing for foreign-based media at 12:30 p.m. Thursday at the Foreign Press Center, 14th & F Streets, Washington, D.C.

Specimen notes will be available for photographs at both events.

A satellite feed that will include portions of the morning ceremony as well as B-roll of the new notes in production will be transmitted via MEDIALINK satellite as follows:

SLUG: New $50 Bill
FIRST DISTRIBUTION: Thursday, June 12, 1997
FEED TIME: 2:15-2:45 pm EDT
FEED COORDINATES: C-Band Galaxy 9/Transponder 2
(Technical assistance contact: Mark Angelini, CONUS Communications at 202-467-5600)

SECOND DISTRIBUTION: Friday, June 13, 1997
FEED TIME: 10:00-10:30 am EDT
FEED COORDINATES: C-Band Galaxy 4/Transponder 14
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RR-1750

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

June 11, 1997

ECRETARY OF THE TREASURY

The Honorable Bill Archer
Chairman, Committee on Ways and Means
U.S. House of Representatives
Washington, DC 20515-4005

Dear Bill:

I have reviewed the Chairman's Mark you released earlier this week, providing the details of the tax portion of the bipartisan budget agreement. The President is eager to sign legislation implementing the agreement into law, but in its present form, the proposal you have put forth does not meet the test of fairness to working families and has other serious problems. I have included preliminary Treasury distribution tables for your package after this letter. Our major concerns are listed below.

Your bill will reduce the value of the $500 child credit for millions of low income families by requiring a family to take the child credit only after the earned income tax credit is taken against their tax liability. A family with two children and $25,000 of income, for example, would receive no tax relief from the child credit under your proposal. Under the President's plan, this family would get $1,000, the same as a family that earned twice as much. We would favor a refundable child credit that better targets low and middle income working families. The credit should be indexed for inflation. We would also permit taxpayers to place their child credit into a tax-favored savings account to finance their children's college education. In combination with our tuition deduction, this proposal would allow families to save and pay for college tax-free.

The proposed legislation singles out six million families who pay for child care and gives them a smaller tax cut. Beginning in 2002, families who receive a tax credit for their child care expenses would lose 50 cents for each dollar of their child credit. This provision unfairly reduces tax relief for working parents who are struggling to maintain a decent standard of living and to pay for child care. For example, a family with two working parents making $45,000 who pay for child care for their two children would seemingly be eligible for a $1,000 child tax credit. But under the proposed legislation, they would also lose $480 of their child tax credit, beginning in 2002.

The education package falls nearly $13 billion short of the agreed goal of $35 billion in tax cuts for education, which are consistent with the HOPE scholarship and tuition deduction proposals in the President's FY98 Budget. Furthermore, as compared to the President's proposals, it directs more benefits toward upper-income families while reducing the benefits to lower-income families. It introduces serious administrative complications and is less effective at easing the burden of college attendance for working families.

RR-1751

- The HOPE credit would be cut to 50 percent of tuition expenses, halving the value of education benefits for millions of students attending community colleges and other low-cost institutions.

- Unlike the broadly available tuition deduction in the President's package, the tuition deduction in your proposal would be available only if education expenses are paid from certain education savings plans. Hence, no help is given beyond the first two years of higher education to low-income students and students who must borrow to pay tuition. In addition, your proposal does much less to encourage lifelong learning, one of the central objectives of the President's package.

- Tax-free savings offered through new education investment accounts and the opportunities for tax-deferred saving through private prepaid tuition plans are overly generous to upper income families, since they have neither income limits nor contribution limits. This would give high-income taxpayers an incentive to use these vehicles to save tax-free, even if they never intend to use the savings for education expenses. In the early years, the benefits for education will only be available to those who already have large reserves of cash to deposit in these accounts, not to others who can contribute only modest amounts each year.

The American Dream IRAs are not sufficiently targeted. Contributions could be made to these back-loaded IRAs without any income limits, which would surely result in a substantial shifting of existing savings into tax-preferred investment vehicles by high-income taxpayers, rather than creating new savings.

The proposal to index certain capital assets and lower the rate of tax on capital gains provides a double benefit to taxpayers, substantially overcompensating them for the effects of inflation. The package would disproportionately benefit the wealthy over lower- and middle-income wage earners. The package also has an explosive revenue cost in years after 2007, possibly jeopardizing all our important work to balance the budget. In addition, the indexing proposal is enormously complex and difficult to administer. To quote the New York State Bar Association, indexing is "fundamentally flawed" and would create problems that would "overwhelm taxpayers and the IRS."

In addition, we are concerned about the proposal to reduce the corporate capital gains tax rate. We would propose expanding the existing exclusion for long-term equity investments in smaller businesses. The expansion of the capital gains incentive for small businesses will help more start-ups get off the ground, and ensure that America continues to lead the world in high technology.

At a time when business conditions are strong and profits are at their highest share of GDP in two decades, you have proposed to spend $34 billion over 10 years to eliminate the corporate alternative minimum tax. This provision would return us to the days when some large and profitable corporations could pay little or no tax.

Your plan contains other provisions that raise serious concerns. The safe-harbor for independent contractor status would permit employers to avoid essential worker protections. At a time when we are trying to expand health and pension coverage, this proposal could lead to widespread shifting of employees to independent contractor status, resulting in loss of worker protections such

as pension and health coverage, and consequently wage and hour protections, unemployment insurance benefits and compensation for work-related injuries.

Under your proposal, Indian tribes would be subject to the unrelated business income tax on all income earned from commercial activities. Contrary to long-established U.S. policy, this tax fails to respect the sovereignty of Indian tribes and their special status as domestic dependent nations. This lack of respect for sovereignty is particularly apparent in the difference the proposal would create between tribes and States. In addition, the proposal would be extremely difficult to administer.

We are very disappointed that your proposal excluded a number of important initiatives for the President's FY 1998 Budget that were included in the budget agreement. For example, the Nation's mayors and urban and rural communities have been extremely supportive of the President's brownfields provision, which provides a tax incentive for environmental cleanup and encourages economic development in formerly contaminated areas. Your proposal excludes this provision. And while tax relief is provided for the District of Columbia, no additional Empowerment Zones or Enterprise Communities for the rest of the country are provided.

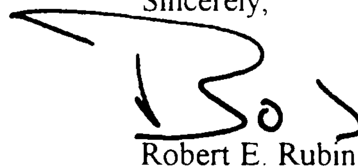
In addition, no provision is included to stimulate investments in Community Development Financial Institutions to revitalize distressed neighborhoods around the country. No provision is included for equitable tolling, which protects a taxpayer's rights when he or she is incapacitated, or for restructuring our Nation's affordable housing portfolio.

Your bill also includes a provision to raise the debt ceiling. We believe that it should be included in the other reconciliation bill.

In summary, we think this package disproportionately benefits the most well off in society at the expense of working families. Given the tough choices that need to be made within this tax package, we think it is unwise, for example, to eliminate the corporate AMT, while at the same time denying tax relief provided by the child credit to millions of hard-working taxpayers with children who receive the earned income tax credit. Moreover, the provisions in the package that drive up costs beyond the ten year budget window, are those that most advantage high-income taxpayers.

We look forward to working with the Congress to design a tax package that helps working families pay for education, buy and sell homes, and raise their children. We are committed to achieving a tax package that is fair to all Americans.

Sincerely,



Robert E. Rubin

Enclosures

Major Tax Cut Provisions in the Ways and Means Chairman's Mark (1)

(199˜ ˜ncome Levels)

Family Economic Income Quintile (2)	Number of Families (millions)	Average Tax Change ($)	Total Tax Change: Amount (3) ($M)	Total Tax Change: Percent Distribution (%)	Tax Change as a Percent of: Current Federal Taxes (4) (%)	Tax Change as a Percent of: Family Economic Income (%)
Lowest (5)	21.6	-17	-357	0.5	-2.84	-0.17
Second	22.2	-76	-1691	2.4	-2.75	-0.31
Third	22.3	-295	-6574	9.2	-4.17	-0.69
Fourth	22.3	-623	-13856	19.5	-4.49	-0.86
Highest	22.3	-2172	-48354	67.9	-5.31	-1.17
Total (5)	111.3	-640	-71191	100.0	-4.90	-0.96
Top 10%	11.1	-3089	-34406	48.3	-5.20	-1.18
Top 5%	5.6	-4577	-25517	35.8	-5.22	-1.21
Top 1%	1.1	-12247	-13741	19.3	-5.29	-1.30

Department of the Treasury
Office of Tax Analysis

June 11, 1997

(1) This table distributes the estimated change in tax burdens due to the major tax cut proposals in the Ways and Means Chairman's Mark which include the following: i) child and dependent care tax credits, ii) a modified HOPE scholarship tax credit, iii) a deduction for education expenses paid through State-sponsored prepaid tuition programs; iv) education investment accounts and private prepaid tuition programs; v) American Dream IRAs; vi) Capital gains provisions (lower individual and corporate rates, indexing of individual gains, and $500,000 exclusion for gains on a principal residence); v) individual AMT change and corporate AMT repeal; vi) District of Columbia tax incentives; and vii) safe harbor for independent contractors.

(2) Family Economic Income (FEI) is a broad-based income concept. FEI is constructed by adding to AGI unreported and under-reported income; IRA and Keogh deductions; nontaxable transfer payments such as Social Security and AFDC; employer-provided fringe benefits; inside build-up on pensions, IRAs, Keoghs, and life insurance; tax-exempt interest; and imputed rent on owner-occupied housing. Capital gains are computed on an accrual basis, adjusted for inflation to the extent that reliable data allow. Inflationary losses of lenders are subtracted and gains of borrowers are added. There is also an adjustment for accelerated depreciation of noncorporate businesses. FEI is shown on a family rather than a tax-return basis. The economic incomes of all members of a family unit are added to arrive at the family's economic income used in the distributions.

(3) The change in Federal taxes is estimated at 1998 income levels but assuming fully phased in (2007) law and behavior. For the American Dream and education accounts, the change is measured as the present value of the tax savings from one year's contributions. The effect of the capital gains provision is based on the level of capital gains realizations under current law.

(4) The taxes included are individual and corporate income, payroll (Social Security and unemployment), and excises. Estate and gift taxes and customs duties are excluded. The individual income tax is assumed to be borne by payors, the corporate income tax by capital income generally, payroll taxes (employer and employee shares) by labor (wages and self-employment income), excises on purchases by individuals by the purchaser, and excises on purchases by business in proportion to total consumption expenditures. Federal taxes are estimated at 1998 income levels but assuming 2007 law and, therefore, exclude provisions that expire prior to the end of the Budget period and are adjusted for the effects of unindexed parameters.

(5) Families with negative incomes are excluded from the lowest quintile but included in the total line.

NOTE: Quintiles begin at FEI of: Second $16,950; Third $32,563; Fourth $54,758; Highest $93,222; Top 10% $127,373; Top 5% $170,103; Top 1% $408,551.

Very Preliminary

Major Tax Cut Provisions in the Ways and Means Chairman's Mark (1)

(1998 Income Levels)

Family Economic Income Class (2) (000)	Number of Families (millions)	Average Tax Change ($)	Total Tax Change: Amount (3) ($M)	Total Tax Change: Percent Distribution (%)	Tax Change as a Percent of: Current Federal Taxes (4) (%)	Tax Change as a Percent of: Family Economic Income (%)
0 - 15	18.5	-14	-268	0.4	-2.87	-0.17
15 - 30	21.8	-62	-1363	1.9	-2.72	-0.28
30 - 40	12.1	-167	-2014	2.8	-3.24	-0.48
40 - 50	9.7	-333	-3234	4.5	-4.43	-0.74
50 - 60	7.9	-453	-3567	5.0	-4.54	-0.83
60 - 75	9.4	-548	-5159	7.2	-4.30	-0.82
75 - 100	11.7	-837	-9794	13.8	-4.88	-0.97
100 - 200	15.6	-1492	-23269	32.7	-5.37	-1.13
200 & over	3.9	-5663	-22164	31.1	-5.24	-1.23
Total (5)	111.3	-640	-71191	100.0	-4.90	-0.96

Department of the Treasury
Office of Tax Analysis

June 11, 1997

(1) This table distributes the estimated change in tax burdens due to the major tax cut proposals in the Ways and Means Chairman's Mark which include the following: i) child and dependent care tax credits, ii) a modified HOPE scholarship tax credit, iii) a deduction for education expenses paid through State-sponsored prepaid tuition programs; iv) education investment accounts and private prepaid tuition programs; v) American Dream IRAs; vi) Capital gains provisions (lower individual and corporate rates, indexing of individual gains, and $500,000 exclusion for gains on a principal residence); v) individual AMT change and corporate AMT repeal; vi) District of Columbia tax incentives; and vii) safe harbor for independent contractors.

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(4) The taxes included are individual and corporate income, payroll (Social Security and unemployment), and excises. Estate and gift taxes and customs duties are excluded. The individual income tax is assumed to be borne by payors, the corporate income tax by capital income generally, payroll taxes (employer and employee shares) by labor (wages and self-employment income), excises on purchases by individuals by the purchaser, and excises on purchases by business in proportion to total consumption expenditures. Federal taxes are estimated at 1998 income levels but assuming 2007 law and, therefore, exclude provisions that expire prior to the end of the Budget period and are adjusted for the effects of unindexed parameters.

(5) Families with negative incomes are included in the total line but not shown separately.

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
June 11, 1997

STATEMENT BY TREASURY SECRETARY ROBERT E. RUBIN

"The Administration continues to support the ethanol credits as evidenced by the proposed extension of the excise credit for ethanol in the our ISTEA reauthorization proposal earlier this year."

-30-

RR-1752

Remarks by

Alan Greenspan

Chairman

Board of Governors of the Federal Reserve System

Washington, D.C.

Announcement of

New Currency Design

Bureau of Engraving and Printing

Washington, D.C.

June 12, 1997

RR-1754

Thank you, very much, Mr. Secretary. I needn't tell you that the Federal Reserve is quite pleased to be part of this event.

As many of you know, the Federal Reserve has the responsibility of putting currency into circulation through the banking system.

We are most gratified with the successful introduction of the new $100 Note. To date, more than one third of all $100 bills in circulation are Series 1996 notes.

These newly designed $50 Notes will be handled in the same way as the old $50 Notes.

Banks obtain the currency they need for their customers from their district Federal Reserve Banks, and they dispose of surplus currency by returning it to their Reserve Banks.

In this process the Reserve Banks also determine whether each Note is in good enough condition to be recirculated and to verify each Note for genuineness.

Approximately two thirds of all Notes received by the Reserve Banks in incoming deposits are fit enough to be recirculated.

The remaining third -- which are worn out or soiled -- are destroyed and replaced by new Notes obtained from the Bureau of Engraving and Printing.

On average only nine Notes in every million are found to be counterfeit.

(more)

The introduction of the new $50 currency will work the same way as the introduction of the new $100 Notes.

The new $50s -- the second in the series -- will be ready for circulation this fall.

As banks deposit Notes in the regular course of business, the Reserve Banks will replace any older design Notes with Notes of the new design.

The Reserve Banks and their branches around the country provide currency to banks and other depositories in their territories as these institutions need it.

Consequently, not all bank customers will be seeing the new $50 Notes immediately.

I want to assure you that old Notes will not be recalled or devalued. All existing notes will continue to be legal tender.

The United States has always honored its currency at its full face value, no matter how old.

Our currency is trusted and accepted by people throughout the world. Because of this special status, the protection of our currency from counterfeiting has long been a priority.

... So, rest assured that the Department of the Treasury and the Federal Reserve System remain firmly committed to that goal.

(more)

And now, Mr. Secretary, I believe we are ready to introduce the redesigned currency.

-0-

NEW DESIGNS FOR YOUR MONEY

Introduction of the Series 1996 Currency

There will be no recall or devaluation of U.S. currency already in circulation. The United States always honors its currency at full face value, no matter how old. The new Series 1996 $100 notes were introduced in March of 1996. The Series 1996 $50 notes, the next in the series, will be introduced in the fall of 1997. Lower denominations will be issued in order of decreasing value. The new Federal Reserve notes will be phased into circulation, replacing older ones as they reach the banking system. This multi-year introduction of the new series is necessary because of the time-intensive process and because it is important that sufficient inventory be produced to ensure worldwide availability of the new notes.

In conjunction with the Federal Reserve, the Treasury Department began in 1996 a worldwide public education campaign with two primary objectives: (1) to communicate to the general public that there will be no recall or devaluation; and (2) to provide information that will enable the public, law enforcement personnel, central banks, depository financial institutions and other cash handlers to authenticate the new series notes.

History of the New Series

Until the late 1920s, U.S. currency was redesigned frequently. There also were several types of notes in circulation: United States Notes, National Bank Notes and Silver Certificates. Since the introduction of the Series 1928 Federal Reserve Notes, changes in the design, including the use of microprinting and a security thread in Series 1990, have not affected the overall architecture of U.S. currency.

The counterfeit-deterrent features added in Series 1990 were the first step in responding to advances in reprographic technologies. Although these features have proved effective and will be retained, additional measures are necessary to protect against future threats posed by continued improvements in copy machines, scanners and printing. The new design, beginning with Series 1996, is the culmination of a five-year study aimed at staying ahead of the counterfeiting threat and is part of a continuing process to protect U.S. currency. At the same time, the redesign process has provided an opportunity to incorporate features that will make U.S. currency more readily usable, especially by the low-vision community.

The process began with the New Currency Design Task Force, which comprised representatives of the U.S. Treasury Department, Federal Reserve System, U.S. Secret Service and the Bureau of Engraving and Printing (BEP). The Task Force made its recommendations to the Advanced Cur-

rency Deterrence Steering Committee, also composed of representatives of the Treasury Department, Federal Reserve, Secret Service and BEP. Based on a comprehensive study by the National Academy of Sciences, the Steering Committee then made recommendations for the new design and security features to the Secretary of the Treasury, who has statutory authority to approve such changes.

More than 120 security features were examined and tested, including those submitted in response to a BEP solicitation, those used in other currencies, and those suggested by the NAS. Evaluation criteria included impact on security, proven reliability, ability to be manufactured in large quantities, and durability over time. Among the features evaluated were holograms, color shifting films, thread variations, color patterns, and machine-readable enhancements. The strategy of the Design Task Force was to incorporate as many features as are justifiable. The security features ultimately selected have proved successful in other countries as well as in test environments at BEP and the Federal Reserve.

In its second report, the NAS evaluated features to help those with low vision differentiate between currency denominations. These included variations in size and shape, holes and other tactile features that the Task Force deemed were not sufficiently durable to be practicable for U.S. currency at this time. The Task Force agreed that a high-contrast feature, such as a large numeral on a light background, would be useful to the approximately 3.7 million Americans with low vision, and could be easily incorporated into the new series design without compromising the improved security of the new notes or adding cost.

The Design Task Force will continue to seek and test new features to make U.S. currency even more secure and more readily usable as technology further evolves.

The New Design

The new currency is the same size, color and feel as the old notes, with the same historical figures and national symbols. "In God We Trust" and the legal tender wording also will remain on the new bills. This continuity facilitates public education and universal recognition of the design as genuine U.S. currency—an important consideration since there will be dual circulation of the old and new currencies around the world.

The $50 bill includes several important security features. These features also appear in the $100, with some variations:

- A larger, slightly off-center portrait is the most noticeable visual change. The larger portrait incorporates more detail, making it easier to recognize and more difficult to counterfeit. Moving the portrait away from the center, the area of highest wear, will reduce wear on the portrait. The $50 bill features a portrait of General Ulysses S. Grant.

- Shifting the portrait off center provides room for a watermark, which is created during the paper-making process and makes it harder for counterfeiters to print. The watermark depicts the same historical figure as the engraved portrait.

- The reverse of the new $50 note features a new engraving of the U.S. Capitol as viewed from the west front.

- Serial numbers on the new currency will differ slightly from old currency. The new serial numbers will consist of two prefix letters, eight numerals, and a one-letter suffix. The first letter of the prefix will designate the series (for example, Series 1996 will be designated by the letter A). The second letter of the prefix will designate the Federal Reserve Bank to which the note was issued. In addition, a universal Federal Reserve seal will be used, rather than individual seals for each Reserve Bank.

- The use of a unique thread position for each denomination will guard against counterfeiting. In the $50 bill, the thread is to the right of the portrait and glows yellow when held under ultraviolet light; in the $100 bill, it is found to the left and glows red.

- Color shifting ink changes from green to black when viewed from different angles. This feature is used in the numeral in the lower right-hand corner of the bill front.

- The side borders and the portrait incorporate microprinting, a printing technique using lettering that can be read with a low-powered magnifier. Extremely small print ("USA 50" and a flag on the $50 bill) appears as a thin line to the naked eye and yields a blurred image when copied. On the $50 bill, microprinting can also be found in the side borders and in the portrait. On the $100 bill, similar microprinting is also used on Benjamin Franklin's coat.

- The background of the portrait incorporates the technique of concentric fine-line printing, as will the background of the picture on the reverse side. This type of fine line printing is difficult to resolve properly on scanning equipment and to replicate accurately by other means of printing.

Although all denominations of currency will have security features, the number of features will vary according to denomination. While the $50 and $100 notes have a full package of features, smaller notes will have fewer and less sophisticated features. The basic appearance of all denominations will not vary.

NEW DESIGNS FOR YOUR MONEY

Technical Background
Security Features

The Department of the Treasury's Bureau of Engraving and Printing (BEP) is responsible for producing the new series currency. The Federal Reserve System is responsible for placing the new series of currency into circulation. After extensive testing and evaluation of approximately 120 bank note security devices, BEP selected several features, including: an enlarged off-center portrait, watermark, concentric fine-line patterns and color-shifting ink.

Other pre-existing security features such as the security thread and microprinting are included in the new notes and have changed only slightly.

Evaluation Criteria

Effectiveness

Counterfeit deterrent effectiveness was tested by reprographic equipment manufacturers and government scientists. They also considered the ease of public and cash handler recognition.

Durability

Durability was tested rigorously. Tests included crumpling, folding, laundering, soiling and soaking in a variety of solvents such as gasoline, acids and laundry products.

Developmental

The total cost was $765,000: $265,376 to fund National Academy of Sciences studies, and approximately $500,000 to purchase test quantities of features and carry out internal BEP evaluations.

Production Costs

Research and production expenses will increase the cost of each note by a fraction of a cent. The Federal Reserve is funding the development and introduction of the new currency through earnings the Federal Reserve receives primarily from interest on its holdings of U.S. government securities.

Appearance

The currency still looks very American. The size of the notes, basic colors, historical figures and national symbols are not changing. New features were evaluated for their compatibility with the traditional design of United States currency.

The New Security Features

Watermark

The watermark is formed by varying paper density in a small area during the papermaking process. The image is visible as darker and lighter areas when held up to the light. The watermark does not copy on color copiers, thereby making it an easy way to verify the note and making it harder to use lower denomination paper to print counterfeit higher denominations. It depicts the same historical figure as the engraved portrait.

Color-Shifting Inks

These inks used in the numeral on the lower right corner of the face of the note, change color when the note is viewed from different angles. The ink appears green when viewed directly and changes to black when the note is tilted.

Concentric Fine-Line Patterns

This type of line structure appears normal to the human eye but is difficult for current scanning equipment to resolve properly. The lines are found around the portrait on the front, and around the historic building on the back.

Enlarged Off-Center Portrait

A larger portrait can incorporate more detail, making it easier to recognize and more difficult to counterfeit. It also provides an easy way for the public to distinguish the new design from the old. The portrait is shifted off center to provide room for a watermark and unique "lanes" for the security thread in each denomination. The slight relocation also reduces wear on most of the portrait by removing it from the center, which is frequently folded. The increased size is a help to people with low vision.

Low-Vision Feature

Beginning with the Series 1996 $50 Federal Reserve Note, U.S. currency will have a large dark numeral on the light background on the lower right corner of the back. The numeral, which is easier to read, represents the denomination and helps people with low vision, senior citizens and everyone else in low-light circumstances.

Pre-Existing Security Features

Security Thread

A security thread is a thin thread or ribbon running through a bank note substrate. The thread in U.S. currency has printing and on the new $50 note, micro-printing and graphics. The thread in the new notes glows when held under an ultraviolet light. In the $100 note it glows red, and in the new $50 note it glows yellow. In addition, it is visible in transmitted light, but not in reflected light. This characteristic makes it difficult to copy with a color copier. Using a unique thread position for

each denomination starting with the new $100 note guards against certain counterfeit techniques, such as bleaching ink off a lower denomination and using the paper to "reprint" the bill as a higher value note.

Microprinting

This print appears as a thin line to the naked eye, but the lettering easily can be read using a low-power magnifier. The resolution of most current copiers is not sufficient to copy such fine print. On the $100 notes, microprinting appears in the lower left corner and on Benjamin Franklin's coat. On the newly designed $50 notes, microprinting appears on the side borders and in the portrait.

NEW DESIGNS FOR YOUR MONEY

Advanced Copier and Printer Technology

Advanced reprographic technology improved dramatically during the 1990s. The technology is expected to continue to improve into the next century. Some types of equipment are capable of accurately reproducing the colors and fine-line detail of security documents and are seen as a threat to currency.

Market surveys indicate that as quality, affordability, and availability increase, advanced equipment will become the standard in offices, copy centers and printing facilities. The color copier/printer of the '90s has been compared with the color television of the '70s, when color became the standard, rather than the exception.

Of the new technologies, advanced copiers, printers, electronic digital scanners, color workstations and computer software can present threats to currency. During the early '90s, the new technologies used in advanced copiers and printers merged and interfaced with each other. This equipment does not require extensive expertise to operate and is becoming widely accessible through copy centers, corporate offices and even home use.

Advanced Full-Color Copiers

Advanced full-color copiers have evolved into a digital electrophotographic process utilizing digital scanners and computer technology to produce high quality plain paper copies. Some of these copiers interface with personal computers. The scanner portion of the copier can be used to scan an image into the computer or as the computer's output device. In time, the high-end digital copiers may well be able to reproduce much of the fine detail of currency.

Digital Scanners

Scanner equipment electronically scans an image or text from an original document and digitizes it into a computer-readable form. Through the use of computer graphics software, the image may be displayed on a screen and changed or combined with other images. The edited image then can be stored in an electronic format, printed on a color output device or used to make offset or gravure printing plates.

Scanner equipment is no longer confined to large printing, graphic design or advertising firms. Low and medium-quality scanners are readily available to the individual. High-quality scanners are readily available in copy centers and corporate offices. The scanners incorporated in some advanced color copiers can interface with personal computers and graphics programs.

Advanced color copiers and printing equipment using this technology can be a security threat because of the flexible editing capabilities and fine-detail reproductions. As the price of this technology continues to drop, the availability of high quality scanners will increase.

Color Ink Jet Copiers and Printers

Color ink jet copiers utilize scanner technology to digitize an image, which is then reproduced using ink jet printer technology. These machines, which are capable of producing good quality reproductions on plain paper, are widely available and inexpensive. Some of these ink jet copier machines can interface with personal computers and graphics software. The machines then can be used to scan an image into the computer or to output an image.

Personal Computers and Graphics Software

Personal computers and graphics software combine the latest personal computer, graphics software, printer/copier, video and scanner technologies. The images can be stored indefinitely, copied electronically or transmitted to another location for printing. Output quality depends on the scanner and printer dpi resolution capabilities. Printer resolution is of greater importance because scanner input can be edited to enhance image quality. As the price of personal computer technology continues to drop, the availability and use of this technology to counterfeit currency and other security documents has increased.

NEW DESIGNS FOR YOUR MONEY

Department of the Treasury
Bureau of Engraving and Printing: The U.S. Government's Security Printer

- Since October 1, 1877, all United States currency has been printed by the Bureau of Engraving and Printing, which began as a six-person operation using steam-powered presses in the Department of the Treasury's basement.

- Now 2,200 Bureau employees occupy 25 acres of floor space in two Washington, D.C. buildings flanking 14th Street. Currency and stamps are designed, engraved, and printed 24 hours a day on 30 high-speed presses. An additional 550 Bureau employees are at the Western Currency Facility in Fort Worth, Texas, where currency is printed 24 hours a day, 5 days a week on 12 high-speed presses.

- In 1996, at a cost of 4 cents each, over 9.4 billion notes worth approximately $195 billion were produced for circulation by the Federal Reserve System. Ninety-five percent will replace unfit notes and five percent will support economic growth. At any one time, $200 million in notes may be in production.

- Of total production, notes currently produced are the $1 (46 percent of production time), $2 (1 percent), $5 and $10 (10 percent each), $20 (20 percent), $50 (6 percent), and $100 (7 percent).

- The Bureau also prints White House invitations and some 500 engraved items, such as visa counterfoils, naturalization documents, commissions, and certificates for almost 75 federal departments and agencies.

Tours

- The Bureau of Engraving and Printing is one of the most popular tourist stops in Washington. Almost 500,000 people visit the printing facility each year.

- Free 20-minute guided tours are offered Monday through Friday, 9 a.m. - 2 p.m., except for federal holidays and the week between Christmas and New Year's. Tours start on Raoul Wallenberg Place (formerly 15th Street). During the summer months (June-August), afternoon tours are given from 5 p.m. - 7:30 p.m.

- Visitors can see press runs of 32-note currency sheets, examiners overseeing production to ensure high-quality notes, the application of Federal Reserve and Treasury seals, and 4,000 note "bricks" being readied for distribution to Federal Reserve Banks.

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Visitors Center

- At the Visitors Center, history, production, and counterfeit exhibits showcase interesting information about United States currency.

- Many unique items can be purchased at the sales counter. Items include uncut currency sheets of 32, 16, or 4 $1 and $2 notes; $150 worth of shredded currency in plastic bags that are sold for $1; engraved collectors' prints; souvenir cards; and Department of the Interior Duck Stamps.

Mail Order Sales

- Persons wishing to receive notice of new Bureau products or to order by mail can write:
  Mail Order Sales
  Bureau of Engraving and Printing
  14th and C Streets, S.W., Room 513-M
  Washington, D.C. 20228

  Credit card purchases of Bureau products are available by calling:
  (202) 874-3316
  Monday through Friday, 8 a.m. - 3:30 p.m.

NEW DESIGNS FOR YOUR MONEY

The U.S. Secret Service and Counterfeiting

- The United States issued its first national currency notes in 1861.
- By the end of the Civil War, one-third of all U.S. paper currency in circulation was counterfeit.
- On July 5, 1865, the Secret Service was created within the U.S. Department of the Treasury with the sole mission of suppressing counterfeit currency. In less than a decade, counterfeiting was sharply reduced.
- To stem counterfeiting, the Secret Service works in conjunction with local, state, federal and foreign law enforcement agencies.
- The Secret Service also maintains close working relationships with the Federal Reserve Banks and domestic as well as international commercial banking institutions.
- During fiscal year 1996, a total of $205,220,179 in counterfeit U.S. currency was seized or passed world-wide. Of this amount, 82%, or $169,288,300, was seized prior to circulation with no loss to the public.
- From March 25, 1996 through March 15, 1997, there has appeared, worldwide, $14,524,800 in counterfeit Series 1996 $100 Federal Reserve Notes. Of this amount, $14,023,500 was seized prior to circulation with no loss to the public. This high seizure ratio is attributed to the new security features present in the new notes.

  In the U.S., the most counterfeited denomination is the $20 note, followed by the $100 note, the $10 note, the $50 note, the $1 note, and the $5 note. The $100 note is the most common foreign produced counterfeit note.
- To aid in counterfeit investigations, agents use the Service's modern, well-equipped Forensic Services Laboratory that includes: A complete library of specimen notes dating back to 1865; The largest watermark file in existence; The largest ink library in existence; Equipment to examine and analyze notes counterfeited by various types of printing methods as well as by office machine copiers.
- During fiscal year 1996, the Secret Service had a 98.6 percent conviction rate for violations investigated by the agency.

For further information, please contact:

United States Secret Service
Office of Government Liaison and Public Affairs
1800 G Street, NW, Room 805
Washington, D.C. 20223
Phone (202) 435-5708

The Federal Reserve: Central Bank of the United States

Federal Reserve System

The Federal Reserve System was created by the Federal Reserve Act, which was passed by Congress in 1913, to provide a safer and more flexible banking and monetary system. For approximately 100 years before the creation of the Federal Reserve, periodic financial panics had led to failures of a large number of banks, with associated business bankruptcies and general economic contractions. Following the studies of the National Monetary Commission, established by Congress a year after the particularly severe panic of 1907, several proposals were put forward for the creation of an institution designed to counter such financial disruptions. Following considerable debate, the Federal Reserve System was established. Its original purposes were to give the country an elastic currency, provide facilities for discounting commercial credits, and improve the supervision of the banking system.

Economic Stability and Growth

From the inception of the Federal Reserve System, it was clear that these original purposes were aspects of broader national economic and financial objectives. Over the years, stability and growth of the economy, a high level of employment, stability in the purchasing power of the dollar, and a reasonable balance in transactions with foreign countries have come to be recognized as primary objectives of governmental economic policy.

Currency Circulation

An important function of the Federal Reserve System is to ensure that the economy has enough currency and coin to meet the public's demand. Currency and coin are put into or retired from circulation by the Federal Reserve Banks, which use depository institutions as the channel of distribution. When banks and other depository institutions need to replenish their supply of currency and coin-for example, when the public's need for cash increases around holiday shopping periods-depository institutions order the cash from the Federal Reserve Bank or Branch in their area, and the face value of that cash is charged to their accounts at the Federal Reserve. When the public's need for currency and coin declines, depository institutions return excess cash to a Federal Reserve Bank, which in turn credits their accounts.

Unfit and Counterfeit Notes

The Federal Reserve Banks and the U.S. Department of the Treasury share responsibility for maintaining the physical quality of United States paper currency in circulation. Each day, millions of dollars of deposits to Reserve Banks by depository institutions are carefully scrutinized. The Reserve Banks are responsible for receiving, verifying, authenticating, and storing currency and shipping it as needed. Currency in good condition is stored for later distribution. Worn or mutilated notes are removed from circulation and destroyed. Counterfeit notes are forwarded to the U.S. Secret Service, an agency of the Treasury Department.

Federal Reserve Notes

Virtually all currency in circulation is in the form of Federal Reserve Notes, which are printed by the Bureau of Engraving and Printing of the U.S. Treasury. The Reserve Banks are currently authorized to issue notes in denominations of $1, $2, $5, $10, $20, $50, and $100. Coins are produced by the Treasury's United States Mint.

Cash Transfers

Currency and coin are used primarily for small transactions. In the aggregate, such transactions probably account for only a small proportion of the value of all transfers of funds.

List of Federal Reserve System Locations

Board of Governors of the Federal Reserve System, Washington, D.C. 20551

Federal Reserve Bank	Telephone Number	District	Address
BOSTON*	617-973-3000	1	600 Atlantic Avenue, Boston, Massachusetts 02106
NEW YORK*	212-720-5000	2	33 Liberty Street (Federal Reserve P.O. Station), New York, New York 10045
Buffalo Branch	716-849-5000		160 Delaware Avenue, Buffalo, New York 14202 (P.O. Box 961, Buffalo, New York 14240-0961)
PHILADELPHIA	215-574-6000	3	Ten Independence Mall, Philadelphia, Pennsylvania 19106 (P.O. Box 66, Philadelphia, Pennsylvania 19105)
CLEVELAND*	216-579-2000	4	1455 East Sixth Street, Cleveland, Ohio 44114 (P.O. Box 6387, Cleveland, Ohio 44101)
Cincinnati Branch	513-721-4787		150 East Fourth Street, Cincinnati, Ohio 45202 (P.O. Box 999, Cincinnati, Ohio 45201-0999)
Pittsburgh Branch	412-261-7800		717 Grant Street, Pittsburgh, Pennsylvania 15219 (P.O. Box 867, Pittsburgh, Pennsylvania 15230)
RICHMOND*	804-697-8000	5	701 East Byrd Street, Richmond, Virginia 23219 (P.O. Box 27622, Richmond, Virginia 23261)
Baltimore Branch	410-576-3300		502 South Sharp Street, Baltimore, Maryland 21201 (P.O. Box 1378, Baltimore, Maryland 21203)
Charlotte Branch	704-358-2100		530 Trade Street, Charlotte, North Carolina 28202 (P.O. Box 30248, Charlotte, North Carolina 28230)
ATLANTA	404-521-8500	6	104 Marietta Street, N.W., Atlanta, Georgia 30303-2713
Birmingham Branch	205-731-8500		1801 Fifth Avenue, North, Birmingham, Alabama 35203 (P.O. Box 830447, Birmingham, Alabama 35283-0447)
Jacksonville Branch	904-632-1000		800 Water Street, Jacksonville, Florida 32204 (P.O. Box 929, Jacksonville, Florida 32231-0044)
Miami Branch	305-591-2065		9100 Northwest 36th Street, Miami, Florida 33178 (P.O. Box 520847, Miami, Florida 33152-0847)
Nashville Branch	615-251-7100		301 Eighth Avenue, North, Nashville, Tennessee 37203 (P.O. Box 4407, Nashville, Tennessee 37203-4407)
New Orleans Branch	504-593-3200		525 St. Charles Avenue, New Orleans, Louisiana 70130 (P.O. Box 61630, New Orleans, Louisiana 70161-1630)
CHICAGO*	312-322-5322	7	230 South LaSalle Street, Chicago, Illinois 60604 (P.O. Box 834, Chicago, Illinois 60690-0834)
Detroit Branch	313-961-6880		160 West Fort Street, Detroit, Michigan 48226 (P.O. Box 1059, Detroit, Michigan 48231)
ST. LOUIS	314-444-8444	8	411 Locust Street, St. Louis, Missouri 63102 (P.O. Box 442, St.

			Louis, Missouri 63166)
Little Rock Branch	501-324-8300		325 West Capitol Avenue, Little Rock, Arkansas 72201 (P.O. Box 1261, Little Rock, Arkansas 72203-1261)
Louisville Branch	502-568-9200		410 South Fifth Street, Louisville, Kentucky 40202 (P.O. Box 327 1 0, Louisville, Kentucky 40232-2710)
Memphis Branch	901-523-7171		200 North Main Street, Memphis, Tennessee 38103 (P.O. Box 407, Memphis, Tennessee 38101-0407)
MINNEAPOLIS	612-340-2345	9	250 Marquette Avenue, Minneapolis, Minnesota 55401-2171 (P.O. Box 291, Minneapolis, Minnesota 55480-0291)
Helena Branch	406-447-3800		100 Neill Avenue, Helena, Montana 59601
KANSAS CITY	816-881-2000	10	925 Grand Boulevard, Kansas City, Missouri 64198
Denver Branch	303-572-2300		1020 16th Street, Denver, Colorado 80202 (Terminal Annex-P.O. Box 5228, Denver, Colorado 80217)
Oklahoma City Branch	405-270-8400		226 Dean A. McGee Avenue (P.O. Box 25129) Oklahoma City, Oklahoma 73125
Omaha Branch	402-221-5500		2201 Farnam Street, Omaha, Nebraska 68102 (P.O. Box 3958 Omaha, Nebraska 68103)
DALLAS	214-922-6000	11	2200 North Pearl Street, Dallas, Texas 75222 (P.O. Box 655906, Dallas, TX 75265-5906)
El Paso Branch	915-544-4730		301 East Main Street, El Paso, Texas 79901 (P.O. Box 100, El Paso, Texas 79999)
Houston Branch	713-659-4433		1701 San Jacinto Street, Houston, Texas 77002 (P.O. Box 2578, Houston, Texas 77252)
San Antonio Branch	512-224-2141		126 East Nueva Street, San Antonio, Texas 78204 (P.O. Box 1471, San Antonio, Texas 78295)
SAN FRANCISCO	415-974-2000	12	101 Market Street, San Francisco, California 94105 (P.O. Box 7702, San Francisco, California 94120)
Los Angeles Branch	213-683-2300		950 South Grand Avenue, Los Angeles, California 90015 (Terminal Annex-P.O. Box 2077, Los Angeles, California 9005 1)
Portland Branch	503-221-5900		915 Southwest Stark Street, Portland, Oregon 97025 (P.O. Box 3436, Portland Oregon 97208)
Salt Lake City Branch	801-322-7900		120 South State Street, Salt Lake City, Utah 841 1 84111 (P.O. Box 30780, Salt Lake City, Utah 84125)
Seattle Branch	206-343-3600		1015 Second Avenue, Seattle, Washington 98104 (P.O. Box 3567, Seattle, Washington 98124)

* Additional offices of these Banks are located at Lewiston, Maine 04240; Windsor Locks, Connecticut 06096; Jericho, New York 11753; East Rutherford, NJ 07073; Utica Oriskany, New York 13424; Columbus, Ohio 43216; Columbia, South Carolina 29210; Charleston, West Virginia 25328; Des Moines, Iowa 50306; Peoria, Illinois 61607; Indianapolis, Indiana 46206; and Milwaukee, Wisconsin 53201.

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NEW DESIGNS FOR YOUR MONEY

The History of Paper Money

In the early days of this nation, before and just after the American Revolution, Americans used English, Spanish, and French currencies.

Colonial Notes
1690

The Massachusetts Bay Colony issued the first paper money in the colonies which would later form the United States.

Continental Currency
1775

American colonists issued paper currency for the Continental Congress to finance the Revolutionary War. The notes were backed by the "anticipation" of tax revenues. Without solid backing and easily counterfeited, the notes quickly became devalued, giving rise to the phrase "not worth a Continental."

Nation's First Bank
1781

The Continental Congress chartered the Bank of North America in Philadelphia as the nation's first "real" bank to give further support to the Revolutionary War.

The Dollar
1785

The Continental Congress adopted the dollar as the unit for national currency. At that time, private bank note companies printed a variety of notes.

First U.S. Bank
1791

After adoption of the Constitution in 1789, Congress chartered the First Bank of the United States until 1881 and authorized it to issue paper bank notes to eliminate confusion and simplify trade. The bank served as the U.S. Treasury's fiscal agent, thus performing the first central bank functions.

Monetary System
1792

The federal monetary system was established with the creation of the U.S. Mint in Philadelphia. The first American coins were struck in 1793.

Second U.S. Bank
1816

The Second Bank of the United States was chartered for 20 years until 1836.

State Bank Notes
1836

With minimum regulation, a proliferation of 1,600 state chartered, private banks issued paper money. State bank notes, with over 30,000 varieties of color and design, were easily counterfeited. That, along with bank failures, caused confusion and circulation problems.

Civil War
1861

On the brink of bankruptcy and pressed to finance the Civil War, Congress authorized the United States Treasury to issue paper money for the first time in the form of non-interest bearing Treasury Notes called Demand Notes.

Greenbacks
1862

Demand Notes were replaced by United States Notes. Commonly called "greenbacks," they were last issued in 1971. The Secretary of the Treasury was empowered by Congress to have notes engraved and printed by private bank note companies. The notes were signed and affixed with seals by six Treasury Department employees.

The Design
1863

The design of U.S. currency incorporated a Treasury seal, the fine-line engraving necessary for the difficult-to-counterfeit intaglio printing, intricate geometric lathe work patterns, and distinctive cotton and linen paper with embedded red and blue fibers.

Gold Certificates
1865

Gold Certificates were issued by the Department of the Treasury against gold coin and bullion deposits and were circulated until 1933.

Secret Service
1865

The Department of the Treasury established the United States Secret Service to control counterfeiting. At that time, counterfeits were estimated to be one-third of all circulating currency.

National Bank Notes
1866

National Bank Notes, backed by U.S. government securities, became predominant. By this time, 75 percent of bank deposits were held by nationally chartered banks. As State Bank Notes were replaced, the value of currency stabilized for a time.

Bureau of Engraving and Printing
1877

The Department of the Treasury's Bureau of Engraving and Printing started printing all U.S. currency.

Silver Certificates
1878

The Department of the Treasury was authorized to issue Silver Certificates in exchange for silver dollars. The last issue was in the Series 1957.

Federal Reserve Act
1913

After the 1893 and 1907 financial panics, the Federal Reserve Act of 1913 was passed. It created the Federal Reserve System as the nation's central bank to regulate the flow of money and credit for economic stability and growth. The System was authorized to issue Federal Reserve Notes, now the only U.S. currency produced and representing 99 percent of all currency in circulation.

Standardized Design **1929**	Currency was reduced in size by 25 percent and with uniform portraits on the front and emblems and monuments on the back.
In God We Trust **1957**	Paper currency was first issued with "In God We Trust" in 1957. The inscription appears on all currency Series 1963 and later.
Security Thread and Microprinting **1990**	A security thread and microprinting were introduced to deter counterfeiting by advanced copiers and printers. The features first appeared in Series 1990 $100 and $50 notes. By Series 1993, the features appeared in all denominations except $1 notes.
Currency Redesign **1994**	The Secretary of the Treasury announced that U.S. currency would be redesigned to incorporate a new series of counterfeit deterrents. The $100 notes were issued in 1996. And the new $50 notes, which for the first time incorporate a low-vision feature, will be issued in 1997.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED FOR RELEASE AT 9:30 AM EDT
June 12, 1997

REMARKS OF U.S. TREASURER MARY ELLEN WITHROW
PREVIEW OF THE NEW $50 BILL

Welcome to the Treasury Department's Bureau of Engraving and Printing, and thank you for taking part in this significant event. I am delighted that Secretary Rubin and Chairman Greenspan could be here with us to preview the second note of our new Series 1996 currency. I also am pleased that joining us are Governor Edward Kelley of the Federal Reserve, our new director of the Secret Service, Lewis Merletti, the director of the Bureau of Engraving and Printing, Larry Rolufs, and Patricia Beattie--whose work in important positions with not one, but three, organizations representing the visually impaired--have earned her widespread respect. Let me also recognize Governor Suzanne Phillips of the Federal Reserve and Treasury Under Secretary John Hawke, who are seated in the audience along with our invited guests from the aging and low-vision communities.

I am especially delighted to be participating in this event at this place -- the Bureau of Engraving and Printing, where so many people have labored long and hard to undertake the first major change in our currency in almost seven decades. Many of those who have participated in the development of this new generation of currency are in the audience today, and I would like to extend my personal thanks to them for making the new notes -- and my signature on them -- look so good.

Since the $100 bill was issued a little over a year ago and even in the months before, I have spoken to countless people around the country and around the world about the changes to our currency. I have met with schoolchildren -- who, not surprisingly, are fascinated with everything about money -- as well as with chambers of commerce. I have met with rotary clubs, bank officials, travel agents, and members of the news media. I can tell you it has been a labor of love. Indeed, helping to oversee this introduction process has been one of the most satisfying aspects of my job as United States Treasurer.

Our public education campaign has informed millions and millions of people about our redesigned currency. Pamphlets and posters are being distributed across the globe. We are

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reaching out to the news media of the world to carry to the word about the changes in United States currency. Yes, we have worked hard to ensure that the people who use our currency, depend on our currency, trust our currency, know about the new series of notes and know how to verify their authenticity.

At the end of this short program, we will unveil the new $50 bill -- and the striking new universal design feature that is meant to aid virtually everyone who uses the currency. But first, we would like to remind you why the new series is essential and what changes lie ahead. Of course, change usually takes time to accept, but I think you will be pleased with the results of our work.

And now, it is my distinct honor to introduce the Secretary of the Treasury, Robert Rubin.

DEPARTMENT OF THE TREASURY

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EMBARGOED UNTIL 12:45 P.M. EDT
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June 12, 1997

Contact: Kelly Crawford
202-622-2960

PROMOTING GLOBAL FINANCIAL STABILITY: THE G-7 AGENDA
DEPUTY SECRETARY OF THE TREASURY LAWRENCE H. SUMMERS
INSTITUTE FOR INTERNATIONAL ECONOMICS
WASHINGTON, DC

In just over a week, the G-7 Heads of State and Government, together with Russia's President Yeltsin, will meet in Denver for the Summit of the Eight. There, the leaders will discuss an important array of challenges facing the global community in shaping arrangements to promote lasting peace, broaden prosperity and address global concerns.

The Denver economic agenda is part of a multi-year effort to work with other nations to build a global economic system ready for the 21st century --a system in which trade, investment, capital, information and know-how can flow freely to where they can be used most effectively in creating wealth. And a system in which all countries can participate. Growing integration of the global economy will also create the basis for sustained prosperity at home, by providing vast new opportunities for cutting-edge U.S. firms in the global marketplace.

A crucial aspect of building the global economic system is ensuring that international financial markets remain strong, stable and resilient. In Denver the Heads of State will endorse a set of important initiatives to strengthen financial stability. I would like to focus my remarks today on this part of the Summit agenda, but I would be happy to answer any questions you have following my remarks on the broader economic issues we face in Denver.

The Summit financial agenda is important because strong financial systems are critical to economic prosperity. One need only look back at history --to the Great Depression --to understand the havoc that widespread failures of financial institutions and collapse of markets can cause. More recently, people have literally died in the streets of Albania due to the failure of financial regulation. Over the course of this century, the United States has developed step-by-step the institutions and laws needed to effectively supervise the domestic monetary and banking system and to regulate securities markets, establishing the Federal Reserve System, deposit insurance, and the entire framework of securities and banking law now in place.

RR-1760

We are now in the process of trying to replicate at a global level the types of safeguards against risk that have been so important to growth in the United States. The United States has taken a leadership role in the last several years through the G-7 and international fora of financial regulators on a range of initiatives to promote further international cooperation to reduce risks in global financial markets. The Denver Summit will mark an important step along this path.

Before describing these initiatives in some detail, let me try to place recent developments in the evolution of financial markets into perspective.

Growth of International Financial Markets

In the last 15 years we have seen truly breathtaking developments in the growth of international financial markets. Financial liberalization and integration, innovation in information and communication technologies, and the development of new financial products have combined to create a global financial market where cross-border capital flows exceed a trillion dollars a day. The speed of capital flows and transmission of price movements have increased dramatically as markets have become more integrated and complex. Products such as financial futures and options, and interest rate and currency swaps, have mushroomed in importance, creating tighter links across markets. Large financial firms from major financial markets operate on a global basis, and the distinctions between banks and securities firms have become blurred. It is clear now that we now have one global financial market, where investors, borrowers and financial firms from a growing range of countries are participating.

Some of the most dramatic developments have been in emerging economies. Consider the following:

- Last year over $250 billion in private capital, in the form of direct investment, portfolio flows and bank loans flowed to emerging markets, compared to $25 billion in 1986. It was not too long ago when official flows exceeded private flows to these economies.

- There has been a dramatic increase in the number of countries with access to international capital markets. Just in the last two years, 31 countries have tapped global financial markets for the first time, bringing the total number with access to 56. Across the emerging markets public enterprises, private companies, and even sub-national governments have been able to access global capital markets.

The dramatic growth and innovations in the international financial system growth have brought tremendous benefits to the global economy by increasing access to capital for businesses, speeding development in emerging economies, enabling investors to seek higher returns and greater diversification of risk, and allowing business and financial firms to better manage their balance sheets.

At the national level, financial sector development and integration promotes a virtuous circle of economic progress by creating the conditions for further economic reforms, increasing access to capital and improving the efficiency by which savings are mobilized and invested, which can lead to further capital market development.

The United States has been at the forefront of efforts to build a truly global capital market by supporting efforts aimed at liberalizing capital flows, developing domestic financial markets and promoting greater access by foreign financial firms to domestic markets. This is an integral part of our strategy to build a global economy and to spread prosperity.

However, this new financial environment is not without its risks. As Robert Merton has said, it's a bit like the impact of the interstate highway system --people get places faster and new opportunities are created, but accidents can be much worse. This new financial environment poses some new challenges:

- The IMF reports that two-thirds of its member countries have had significant banking problems over the last fifteen years. The fiscal costs have claimed a significant share of domestic resources, ranging from about 3% of GDP for the S&L crisis in the U.S. to 30% of GDP for Chile in the 1980s.

- Mexico's 1994 financial crisis reverberated throughout the international financial system.

- "Rogue traders" have brought a number of financial institutions to their knees.

The main concern of the monetary authority is systemic risk --the possibility that the failure of a major financial firm, or a disruption in one financial market or country, could have contagion effects on other firms and markets, with serious adverse economic consequences. This is important because the consequences of financial crises are not just economic, but can affect political stability and the conditions necessary for maintaining a democratic society.

Promoting Global Financial Stability: The G-7 Agenda

In response to these risks, the G-7 has undertaken a variety of initiatives to ensure that the international architecture --the IMF, the various cooperative fora of the major monetary authorities, and the international regulatory bodies --stays abreast of the frontier of developments in the major financial markets. President Clinton started this process with his proposal at the Naples Economic Summit in 1994 to undertake a broad set of reforms to help make the international financial architecture better able to meet new challenges in the world economy.

The financial part of this initiative has been directed, as Secretary Rubin has said, at making our institutional framework for dealing with systemic risks as modern as the markets. Just as war is too important to be left to the generals and economic policy is too important to be left to the economists, financial regulation is too important to be left only to the regulators. We want to ensure that the benefits of the global financial market are fully realized, while the risks are reduced.

Managing Sovereign Financial Crises

The first phase was directed at efforts to strengthen the international monetary system as a whole. The first series of proposals was intended to reduce the risk of and to better manage future sovereign financial crises. These initiatives included:

- *Early warning and prevention of financial crises*, through strengthened IMF surveillance procedures and adoption by the IMF of data disclosure standards for countries seeking to borrow in the global capital markets. It is hard to over-emphasize how important a factor transparency is in bringing problems to the light of day before they become serious. The development of the U.S. Generally Accepted Accounting Standards (GAAP) and the disclosure requirements in the securities laws were critically important to the development of U.S. securities markets. The IMF data disclosure standards are a significant step toward greater transparency.

- *Enhancing international financing arrangements for crises*, through the IMF's emergency financing mechanism; and the agreement to establish the New Arrangements to Borrow (NAB), in which the G-10 and 13 non-G-10 countries plus Hong Kong agreed to expand the financial resources available to the IMF in financial crises.

- *And new proposals* for market-based responses to sovereign liquidity crises.

We managed the Mexico crisis successfully, but we did so in an ad hoc fashion. With the new proposals, we believe that the international community will be better able to help forestall a future sovereign financial crisis, and to manage the impact if one does occur.

Strengthening Financial Systems in Emerging Economies

The second phase of this effort was directed at the micro level, at strengthening prudential safeguards in the emerging markets and in the major financial centers.

In April a Working Party established following the Lyon Summit outlined a broad strategy for strengthening financial systems in emerging markets.

The major elements of the strategy include:

- A consensus on the key features of sound financial systems, reflected in sound principles and practices developed by international financial regulatory groups such as the Basle Committee and IOSCO through a consultative process.

- A concerted effort by the international financial institutions to assist countries in adopting these standards.

- Reliance on market discipline as an incentive for national supervisors and private firms to adopt sound supervisory practices and for firms to improve corporate governance and disclosure.

I think it is fair to say that observers have been surprised at the extent of progress that has been achieved over the last year --we've come further, faster than most would have imagined. We have embraced many of the elements of Morris Goldstein's proposal for an International Banking Standard, and where we took a different approach we are convinced we made the right choice. In addressing complex international concerns of this type, you can't get anywhere without first reaching a shared understanding on what should be done and who should do it. That we have accomplished. There is a danger in trying to seek agreement on standards at any cost, and we recognized that sometimes floors can become ceilings.

While strengthening financial systems will take longer in some countries than in others, we believe that the momentum generated by the efforts now underway will help tremendously in speeding progress toward that goal.

Strengthening International Cooperation in Financial Market Supervision

In addition to the focus on emerging markets, the G-7 also has tried to give new impetus to international cooperative efforts to strengthen prudential safeguards in the major financial centers. These initiatives, which will be endorsed at the Denver Summit, include:

- Steps to develop a global network that will enhance the ability of the regulatory community to supervise internationally active firms. These arrangements are intended to close gaps in the system, reduce opportunities for regulatory arbitrage, remove barriers to the exchange of information and facilitate effective responses in the event of emergencies.

- Progress toward agreement on a framework of supervisory principles for globally-active financial institutions.

- Improve transparency, particularly reporting and disclosure of derivatives exposures; and development of supervisory tools to better understand and guide risk management processes at internationally-active firms.

- Efforts to reduce settlement risk in foreign exchange markets and to work with securities regulators to implement a disclosure framework for securities settlement systems.

The development and implementation of these proposals is being undertaken by the competent groups of supervisory and regulatory authorities --the Basle Committee, IOSCO, the BIS Committee on Payments and Settlements Systems, the International Association of Insurance Supervisors, and the Joint Forum (of banking, securities and insurance regulators). The role of the Heads of State and Finance Ministers has been to provide encouragement and some political momentum, rather than to impose a specific design on the regulatory community.

It is critical for the private and public sector to engage in a constructive dialogue as the supervisory framework for global firms evolves. I would like to acknowledge the recent contributions of the Institute of International Finance and the Group of Thirty in this area. There are a number of elements in their studies that are consistent with and supportive of the approach of the regulatory community, including the emphasis on the need to strengthen supervision of globally-active financial institutions, including through a comprehensive assessment of risk; and to improve information sharing between supervisors. The private sector has taken a responsible approach by embarking on these initiatives, which we hope will support the efforts of the regulators in a productive fashion.

The Summit leaders will also endorse an important report of the international implications of electronic money developments. This report by a G-10 working party, comprised of finance ministries, central banks, bank supervisors and law enforcement authorities, outlines a set of key considerations to help guide national approaches to electronic money systems. We succeeded in getting the major markets to appreciate the importance of a balanced approach to this issue that would promote innovation, avoid premature or excessively rigid regulation, and keep the field open for both bank and non-bank potential issuers. Keeping the supervisory system abreast of innovation without constraining innovation will continue to be an important priority.

Looking Forward

These initiatives have a lot of promise. They are designed to help make the system more safe, not to eliminate risk, not to insulate investors or governments or firms from risk or the consequences of bad decisions, and not to extend the supervisory net beyond where it should be extended. They cannot make up for failures of macroeconomic policy. And they cannot substitute for the political will necessary for action by governments.

The test of the success of these initiatives will be easy to measure. It will be evident in how quickly the gap closes between the quality of disclosure by financial institutions in New York and those in Japan and Continental Europe. It will be evident in how accurately the market prices different risks across sovereign issuers and financial institutions. It will be evident in whether supervisory authorities are in fact able to obtain from their counterparts in other countries the information necessary to assess risks to the firm on a comprehensive basis. And it will be evident in how resilient the system proves to be in the face of future shocks that affect markets and countries.

There is some risk that recent events in South East Asia and other countries could lead to a reassessment of the merits of capital account liberalization. The right lesson is that integration of domestic capital markets with global financial markets brings important benefits, but it must be accompanied by sound macroeconomic policies, improved financial market supervision and deeper structural reforms to the domestic economy in order to avoid imbalances that can lead to macroeconomic instability.

As the global economy and global financial markets evolve, official arrangements will have to keep pace to ensure that their benefits are realized and the system stays resilient. We need to focus on making the financial highways safe and fixing the potholes, not imposing limits on innovation or restrictions on integration.

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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

Text as Prepared for Delivery
June 12, 1997

Treasury Secretary Robert E. Rubin
Council for Electronic Revenue Communcation Advancement
Washington, D.C.

I appreciate the opportunity to appear before you today. Cerca plays an important role in discussions about the IRS by focusing on electronic filing, which is an extremely important aspect of the future of the IRS. And although your particular interest may be in electronic tax administration, I know that you have a strong interest in working toward a well functioning IRS for years to come.

Just as Cerca is looking toward the future with respect to the IRS, so is the Treasury Department. We are keenly aware that the IRS has significant problems, and is in need of repair. But I also believe that there is a right way and a wrong way to reform the IRS. The wrong way is to proceed with reform injudiciously, which could undermine the credibility of the tax system, and risk funding critical functions of government. Today, I would like to speak with you about what I consider to be a central issue of IRS reform; that is the question of who should run the IRS.

It goes without saying that no one likes to pay taxes. Yet, all too frequently we forget the vital role the IRS plays in the functioning of government. Roughly 95 percent of all federal funds comes from the collection of the IRS. The revenue that the IRS collects funds everything from fighter jets to Medicare checks to grants for college education. The basis for any reform of the IRS must be that we do not interfere with the collection of that revenue, and thus, put at risk these vital functions of government.

Since coming to the Treasury Department, I have devoted an enormous amount of time working towards solutions of the problems of the IRS. We have one objective with respect to the IRS, and that is to make sure the IRS is effective at fulfilling its mission for the American people. The problems of the IRS have developed over decades and we will not be able to solve them overnight, but we are committed to fixing these problems and changing the IRS responsibly. We believe we are well on the way toward important changes and improvements. We must not be put off course now.
RR-1761

In some areas, we have made real progress. The IRS just completed a very successful filing season and we have already issued over 65 million refunds. Electronic filing was up 19 percent to over 14 million electronic returns and telefiling was up 65 percent to over four million returns. There were more than 140 million hits on the IRS WEB site. While these numbers are certainly impressive, with your help, I believe we can do better. Increased -- and better use -- of technology increases efficiency, lowers costs, and is more convenient for taxpayers.

We have made real changes in other areas. As you all know, computer systems have been the source of much-publicized difficulty at the IRS. A little over a year ago, the IRS and Treasury pledged to make a sharp turn in this area. We hired a new Chief Information Officer with a strong record on tax systems, who has won high regard by those who monitor the activities of the IRS. Under his guidance, the IRS has reduced 26 separate projects to nine. The IRS has now released for public comment its long-term Modernization Blueprint to guide the overhaul of the IRS technology systems. The plan, devised after months of extensive consultations with private and public sector experts, replaces today's patchwork with a coherent system and breaks dramatically with the past by establishing a strategic partnership with the private sector. So far this blueprint has been favorably received.

These steps were taken under the direction of a new Modernization Management Board, which includes representatives from Treasury, the Office of Management of the Budget, and the National Performance Review and which is chaired by Deputy Secretary Larry Summers.

Last month we also announced our plan for enhanced oversight of the IRS. Our plan combines permanent, intense and ongoing oversight of the IRS by Treasury with a new Advisory Board of private citizens empowered to advise us and report annually to the taxpayers and the Congress. Our approach achieves the critical objectives of continuity, through a five year term for the Commissioner, outside input through the Advisory Board, and accountability, through frequent reporting to Congress, without putting at risk the progress we have made to date, or the critical functions of government.

Our plan not only provides for substantial oversight, but it also continues the synergies that exist between IRS and Treasury. After months of studying the IRS, we have reached the conclusion that the best way to reform the IRS, serve the American taxpayers and protect revenue flows is by establishing strong public accountability informed by private sector expertise.

As many of you know, last week, the National Commission on Restructuring the Internal Revenue Service, under the leadership of Senator Kerrey and Congressman Portman, announced their proposal for changing the IRS. Their proposal is an important contribution to the debate on the future of the IRS and they offered a number of constructive suggestions, many of which I agree with.

However, there is one area of their proposal with which I disagree with strongly. The Commission has proposed that the Internal Revenue Service be governed by an outside board of private citizens who serve on a part-time basis. Let me share with you a few of the reasons why I believe this proposal is fundamentally flawed and would threaten some of our most important government functions.

First, running the IRS is not a part-time job. We cannot afford to experiment by placing such an important function like the IRS under the jurisdiction of sporadic part-time management. Meeting only every month or so, there is a real possibility that the management would not be able to provide energetic, robust, ongoing oversight of an enormous agency with 103,000 employees. Under the Treasury plan, the Deputy Secretary chairs the oversight board and, of course, the Secretary is involved in a meaningful way as well. Having the IRS under the supervision of full time Treasury senior officials who are there when they are needed is absolutely critical.

Second, we cannot impose private sector solutions on the public sector. I believe that the Commission's position is based on an overly simplistic interpretation of private sector practices. Outside boards of directors can work well in the private sector. No one, least of all I, would challenge the value of private sector input. But if there is one thing that I have learned after 26 years in the private sector and four and one-half years in government, it is that there are important differences between the two. For example, the private sector is accustomed to considering efficiency and profitability. Obviously there are important but broader concerns in government such as privacy, law enforcement, and fairness. We agree there is a need for private sector input, but that input should be used properly, and without compromising other objectives. I believe our proposal for the Advisory Board strikes the right balance.

Third, there will be real and apparent conflicts of interest. Having the private sector set the budget, make personnel decisions, or implement policy will inevitably open a Pandora's Box of conflicts of interest, both real and apparent, which could paralyze the Board's activities. This, in turn, would undermine the credibility of the tax system, which is very dangerous for our society.

There are also a range of constitutional issues, which in itself creates an element of uncertainty. There are, in short, real risks with this proposal, both in the short term while we debate this proposal, and then if the proposal is adopted, there is a long term risk it simply will not work. We cannot afford that kind of risk with the agency responsible for funding so many of the functions of government that are critical to our society. We need to continue our efforts to get the IRS on track, but do it the right way. We believe that our plan does that, without unnecessary risks.

There are many issues that I have to deal with as Secretary of Treasury, and that Larry Summers has to deal with as Deputy -- from the budget and other economic issues to a wide range of law enforcement issues. The easiest thing to do would involve relinquishing the

responsibility of governing the IRS, but, in our view, that would be an abdication of our responsibility. Making the IRS the kind of institution we envision requires the Secretary and the Deputy Secretary to be in a position of leadership and, more importantly, accountability.

Our plan provides for that kind of accountability by institutionalizing a structure that will hold the Secretary accountable by requiring reports to Congress every six months. With a five year term for the Commissioner, our plan provides for continuity and non-partisanship. In short, our plan provides for effective, proactive, ongoing oversight. The elements of our plan that have already been implemented are working -- we should not be delayed or impeded as we continue this progress.

As a final point, I do think that some people proposing new risky governance ideas really do so because they think these are in the best interest of the IRS and American taxpayers. But I think there are other people who may very well be motivated by other agendas. Some would really like to see the IRS, and more broadly our government diminished, and our tax system replaced. I believe we should simplify the tax system, but not by replacing our progressive system of taxation. We must not allow that kind of back-door policy making.

We are at a crossroads with respect to the IRS. It is important for the American people to consider the question of how best to manage the IRS, which, after all, affects every one of us. Our plan provides a good framework for the future for the IRS. The Commission's proposal imperils the IRS.

There are no perfect or easy answers to getting the IRS back on track. But what we must not do is enact an experiment whose risks far outweigh any benefits. I believe our plan offers the best opportunity for putting the IRS on the road to improved customer service, more efficient operations and increased ability to further compliance with the nation's tax laws.

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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.
June 13, 1997

CONTACT: Office of Financing
202/219-3350

TREASURY'S 52-WEEK BILL OFFERING

The Treasury will auction approximately $13,000 million of 52-week Treasury bills to refund $14,221 million of publicly-held 52-week bills maturing June 26, 1997. This offering will result in a paydown for the Treasury of about $1,225 million. In addition to the maturing 52-week bills, there are $18,485 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 $11,649 million of the three maturing bills. These accounts are considered to hold $5,375 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 $8,068 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 $1,693 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.

RR-1762

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Attachment

HIGHLIGHTS OF TREASURY OFFERING OF 52-WEEK BILLS
TO BE ISSUED JUNE 26, 1997

June 13, 1997

Offering Amount	$13,000 million
Description of Offering:	
Term and type of security .	364-day bill
CUSIP number	912794 4W 1
Auction date	June 19, 1997
Issue date	June 26, 1997
Maturity date	June 25, 1998
Original issue date	June 26, 1997
Maturing amount.	$19,596 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 Daylight Saving time on auction day
Competitive tenders	Prior to 1:00 p.m. Eastern Daylight Saving 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

EMBARGOES UNTIL 2:30 P.M. EDT
Text as Prepared for Delivery
June 16, 1997

TREASURY SECRETARY ROBERT E. RUBIN
BRETTON WOODS/OVERSEAS DEVELOPMENT COUNCIL
WASHINGTON, D.C.

It is a pleasure to speak to you today. The first public speech I gave after President Clinton appointed me as Treasury Secretary two and a half years ago was before the Bretton Woods Committee. At the time, I spoke about how the economic well being of the United States is integrally linked to the rest of the world; and how U.S. leadership with respect to issues in the global economy is increasingly important. Every experience I've had since then has only reinforced the importance these principles. My experience has also given me great concern of how little that view is understood among the American people with all the implications that has for public policy.

With millions of Americans benefiting in their jobs directly or indirectly from trade, and all Americans benefiting as consumers, our economic success is a function of a healthy global economy. But our integration with the rest of the world goes beyond economics. We are affected by and must respond to an array of other problems that cross borders such as regional political instability, environmental degradation or even the spread of infectious diseases in distant parts of the globe. That is why President Clinton has pursued a coordinated strategy to advance U.S. economic and national security interests by promoting global economic growth, and maintaining U.S. leadership in the world.

Today, I would like to speak to you about two key methods we have to advance this strategy. The first is through the work we pursue in the Group of Seven industrialized nations. The second is through our work to promote economic reform and growth in the developing nations through the Bretton Woods institutions -- the World Bank, the International Monetary Fund, and the regional development banks -- which, as you are well aware, are vital to our economic prospects.

Let me start with the G-7. Next weekend, the major industrialized nations -- with Russia playing a more important role than ever before, furthering the integration of Russia into the international community -- will meet in Denver for their annual summit.
RR-1763

The United States is hosting this Summit at Denver from a position of enviable strength. At summits in the late 1980s and early 1990s, the other industrialized nations lined up to criticize the United States about its need to get its economic house in order. After years of large budget deficits, and with slippage in the competitiveness of our private sector in many industries, we were viewed by many as yesterday's economy.

Today the United States is once again the most respected economy in the world; a country that has put its economic house in order. In the public sector, in large measure do to the deficit reduction program of 1993, and the economic growth that that program generated, the deficit has fallen from close to five percent of GDP to an estimate of roughly one percent of GDP for 1997. That deficit reduction was key to reducing interest rates and increasing confidence, which, in turn, drove our recovery. Today, unemployment is at 4.8 percent, inflation is low, and the economy has generated over 12 million new jobs. The private sector, for its part, has regained its footing, and has become competitive again across a broad array of industries. These are the best sustained economic conditions in this country in many decades, and the best in the industrialized world. At the same time, there has been a fundamental change in economic views. I remember when I was majoring in Economics in college there was a real debate about the relative merits of central planning versus market based economics. Today, the debate is largely over and there is almost universal consensus in the developed and the developing world around sound macroeconomic policy, the centrality of private sector activity, free markets and trade liberalization, as the model for economic growth for the rest of the world. Now when we go to meetings of the G-7 we speak from a position of credibility about the keys to growth, job creation and competitiveness.

But we should not let the progress that we have made mask the significant economic challenges that we still face. A key question in the G-7 is how to harness the opportunities of the global economy to benefit the least skilled in our own countries, and the least well off in the global economy. In the United States, for example, there are still areas in this country, such as many inner cities, that have not fully benefited from our recent economic progress. We must work to bring people into the economic mainstream and improve education to better prepare our nation for the future. The G-7 meetings play an important role in addressing questions of how to make economic growth benefit all, both in industrialized countries and the developing world.

The United States is pursuing three major economic objectives at the Denver Summit: one promoting growth in the G-7; two promoting global financial stability; and finally, promoting growth and reform in developing and transitional economies. I would like to briefly discuss each of these.

Our first objective is to promote growth in the G-7. While the economic performance of in the United States, as I said, has been strong, and there is solid growth in many emerging markets, for other countries the prospects are not as strong. Japan is just now starting to emerge from five years of sluggish economic performance associated with the collapse of the

asset price bubble of the late 1980s, and it faces the challenge of dealing with fundamental structural problems. Japan and the rest of the world have a strong stake in seeing Prime Minister Hashimoto achieve his objective of a strong domestic demand led recovery and avoiding an increase in Japanese external surplus on a scale that could hurt global growth and fuel protectionism. And we have a major stake in seeing Japan achieve a successful deregulation program that will open Japan's markets further and promote financial liberalization.

The G-7 will discuss prospects for European growth and the challenges they face strengthening growth, reducing fiscal deficits, implementing structural reforms to reduce unemployment, and dealing with the issues surrounding a single currency. The Administration believes the key question throughout Europe is how to balance social needs with the economic flexibility necessary to compete globally and generate more jobs.

We will also engage our G-7 partners in a discussion about the economic and fiscal impact of aging populations, an issue that will become increasingly important to all of us. In 1995, in the United States, for example, there were 5.2 workers for every retiree. In 2030, there will be only 2.7. There are similar figures throughout the G-7. In Japan, there were 4.9 workers for every retiree in 1995; in 2030, there will be 2.2. In Germany, 4.5 in 1995; 2.0 in 2030.

Our second objective at Denver with our G-7 partners is to promote global financial stability. As the Mexican peso crisis clearly showed, while global integration creates new opportunities, it also creates new risks.

We will advance our plan to reduce risks in global financial markets, a process President Clinton began at the Halifax Summit in 1995. At this summit, we will focus on increased regulatory cooperation with respect to international global financial institutions, and establishing and implementing sound supervision for emerging market financial systems.

Our final objective is to promote growth and economic reform in developing and transitional countries. Developing countries account for 42 percent of U.S. exports and those exports are increasing at twice the rate of exports to developed countries.

At Denver, we will work toward bringing into the global economy a region that stands in stark contrast to global trends of economic integration and rising standards of living: Sub-Saharan Africa. An Africa successful in a commitment to democracy, economic reform, and sustainable development will provide higher standards of living for its people and be more stable politically and socially. , in turn, will benefit businesses and workers in all countries and our own national security. Tomorrow, President Clinton will announce the Administration's proposals for promoting growth in Sub-Saharan Africa. These are in response to the changes that have begun in a growing number of countries in the region. While there is no doubt that there are serious problems in many countries in Africa, there are also many countries making

real progress. Uganda, for example, has emerged from years of dictatorship, begun to institute free market reforms, and for several years has been growing eight to ten percent a year. Our initiative will help countries that are helping themselves by moving from the post-colonial relationship based primarily on bilateral aid to a partnership based on open trade, solid macroeconomic conditions, and other economic reforms designed to establish conditions for foreign investment and private sector growth.

At Denver, we will also urge our G-7 partners to take an important step forward on an issue that is critical to the process of promoting economic reform and greater global integration; and that is to work to limit corruption. Our basic view is that all G-7 countries should implement the OECD's proposals to eliminate the tax deductibility of bribes of foreign officials and to criminalize such bribery. The IMF and the Multilateral Development Banks should also expand the scope of their anti-corruption activities.

Much of what we have been discussing today will be accomplished by the Bretton Woods Institutions. They play a crucial role in complementing the objectives we are pursuing through the G-7.

For the last fifty years, these institutions have helped developing countries and transitional economies lay the foundation for market-based economies and open markets, promoting growth and integration into the global economy. They 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. More specifically, the IMF has played a critical role in stabilizing economies around the world, while the World Bank and the Multilateral Development Banks have helped countries restructure their economies, privatize their industries, produce a stable and reliable legal system, and invest in education, health, and basic infrastructure -- all key to attracting the flow of private capital in today's global capital markets, which, in turn, is critical to global growth.

The IFIs have also clearly benefited U.S. businesses and workers. U.S. firms exported more than $25 billion worth of goods and services to the 79 very poor countries eligible for International Development Agency funds in 1995 and roughly $60 billion worth to IDA graduates. Of course, the MDBs also benefit American businesses and workers directly through the projects they finance.

These institutions are our most cost-effective tool to affect economic growth in developing countries. For an annual commitment of $1.2 billion, in addition to our arrears, they lend $46 billion, over which we have enormous influence, and thus the opportunity to shape global growth and economic reform. I only wish that every member of the US Congress could see what our money buys and how much leverage we gain. Yet, as you know, we are now behind in our payments to them by nearly one billion dollars. We are the world's largest and richest economy yet we account for the lion's share of arrears to the multilateral

development banks. There are problems in these institutions, as there are in all institutions. But we have made progress in reforming them. By not paying what we owe, we risk losing our leverage in promoting further reforms, as well as our leverage in how these institutions invest their money.

We helped create these institutions, they have served us well for fifty years and now we threaten their health. Where once we led, now we lag behind. , in turn, threatens our ability to shape these institutions so that they advance our interests. I urge members of both parties to work together to obtain the necessary funding to support these critical institutions.

To move forward successfully on all of the issues I have discussed today -- fostering growth in the G-7, enhancing financial stability, promoting growth and economic reform in developing and transitional economies -- will require that we be successful in the objective I mentioned at the start. We must build a shared understanding among the public and our leaders of the importance to our economic well-being and national security of U.S. international engagement and the policies that flow from that engagement. Recently, the nation commemorated the fiftieth anniversary of the introduction of the Marshall Plan. The initial skepticism that met the Marshall Plan is not often remembered today. It took a concerted public education campaign by George Marshall, President Truman, Senator Arthur Vandenberg and members of both parties to educate the public about the plan and build support for it. Eventually, the plan passed by a wide majority. We need a similar campaign today.

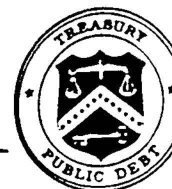
You certainly understand this. You have put together a coalition to increase awareness of the importance of the Bretton Woods Institutions to our economy. It is precisely the type of effort that is necessary to build support for funding these institutions. With Congress about to make its decision on funding for these organizations, all of us -- the Administration, the business community, the labor community and others who understand their importance -- should be energized around building a better understanding of their contribution and greater support for their funding. They are critical to our leadership in a changing and dynamic world.

We have too much at stake to sit on the sidelines and allow the Bretton Woods Institutions to falter -- or allow our leadership in the world to diminish. Instead, let us fully fund these institutions, and shape them for the next fifty years. , in turn, will help promote future global growth, and foster greater prosperity here at home. Thank you very much.

-30-

AUCTION RESULTS

PUBLIC DEBT NEWS



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

TREASURY SECURITY AUCTION RESULTS
BUREAU OF THE PUBLIC DEBT - WASHINGTON DC

FOR IMMEDIATE RELEASE
June 16, 1997

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Term:	91-Day Bill
Issue Date:	June 19, 1997
Maturity Date:	September 18, 1997
CUSIP Number:	9127942U7

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate 1/	Price
Low	4.87 %	5.00 %	98.769
High	4.89 %	5.02 %	98.764
Average	4.88 %	5.01 %	98.766

Tenders at the high discount rate were allotted 7%.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 39,724,718	$ 5,409,013
Noncompetitive	1,352,762	1,352,762
PUBLIC SUBTOTAL	41,077,480	6,761,775
Federal Reserve	3,704,310	3,704,310
Foreign Official Inst.		
Refunded Maturing	273,300	273,300
Additional Amounts	0	0
TOTAL	$ 45,055,090	$ 10,739,385

1/ Equivalent coupon-issue yield.

RR-1764

AUCTION RESULTS

PUBLIC DEBT NEWS

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

TREASURY SECURITY AUCTION RESULTS
BUREAU OF THE PUBLIC DEBT - WASHINGTON DC

FOR IMMEDIATE RELEASE
June 16, 1997

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Term:	182-Day Bill
Issue Date:	June 19, 1997
Maturity Date:	December 18, 1997
CUSIP Number:	9127945X8

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate 1/	Price
Low	5.09 %	5.30 %	97.427
High	5.10 %	5.31 %	97.422
Average	5.10 %	5.31 %	97.422

Tenders at the high discount rate were allotted 25%.

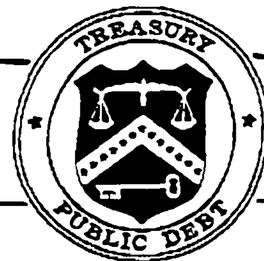
AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 30,333,040	$ 3,229,838
Noncompetitive	1,113,160	1,113,160
PUBLIC SUBTOTAL	31,446,200	4,342,998
Federal Reserve	3,000,000	3,000,000
Foreign Official Inst.		
Refunded Maturing	2,691,000	2,691,000
Additional Amounts	0	0
TOTAL	$ 37,137,200	$ 10,033,998

1/ Equivalent coupon-issue yield.

RR-1765

PUBLIC DEBT NEWS



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

FOR IMMEDIATE RELEASE
June 17, 1997

Contact: Office of Financing
(202) 219-3350

TREASURY'S INFLATION-INDEXED NOTES
JULY 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 July for the 10-Year Treasury inflation-indexed notes of Series A-2007. 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 1766. The information is also available on the Internet at Public Debt's home page: (http://www.publicdebt.treas.gov).

The information for August is expected to be released on July 16, 1997.

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PA-269

RR-1766

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

TREASURY 10-YEAR INFLATION-INDEXED NOTES

SERIES:	A-2007
CUSIP:	9128272M3
DATED DATE:	January 15, 1997
ORIGINAL ISSUE DATE:	February 6, 1997
ADDITIONAL ISSUE DATE:	April 15, 1997
MATURITY DATE:	January 15, 2007
Ref CPI on DATED DATE:	158.43548
TABLE FOR MONTH OF:	July 1997
NUMBER OF DAYS IN MONTH:	31

CPI-U (NSA) Mar. '97	160.0
CPI-U (NSA) Apr. '97	160.2
CPI-U (NSA) May '97	160.1

Ref CPI and Index Ratios for July 1997:

Calendar day			Ref CPI	Index Ratio
July	1	1997	160.20000	1.01114
July	2	1997	160.19677	1.01112
July	3	1997	160.19355	1.01110
July	4	1997	160.19032	1.01108
July	5	1997	160.18710	1.01106
July	6	1997	160.18387	1.01104
July	7	1997	160.18065	1.01102
July	8	1997	160.17742	1.01099
July	9	1997	160.17419	1.01097
July	10	1997	160.17097	1.01095
July	11	1997	160.16774	1.01093
July	12	1997	160.16452	1.01091
July	13	1997	160.16129	1.01089
July	14	1997	160.15806	1.01087
July	15	1997	160.15484	1.01085
July	16	1997	160.15161	1.01083
July	17	1997	160.14839	1.01081
July	18	1997	160.14516	1.01079
July	19	1997	160.14194	1.01077
July	20	1997	160.13871	1.01075
July	21	1997	160.13548	1.01073
July	22	1997	160.13226	1.01071
July	23	1997	160.12903	1.01069
July	24	1997	160.12581	1.01067
July	25	1997	160.12258	1.01065
July	26	1997	160.11935	1.01063
July	27	1997	160.11613	1.01061
July	28	1997	160.11290	1.01059
July	29	1997	160.10968	1.01057
July	30	1997	160.10645	1.01055
July	31	1997	160.10323	1.01053

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.
June 17, 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 $18,485 million of publicly-held 13-week and 26-week bills maturing June 26, 1997. This offering will result in a paydown for the Treasury of about $4,475 million. In addition to the maturing 13-week and 26-week bills, there are $14,221 million of maturing publicly-held 52-week bills.

In addition to the public holdings, Federal Reserve Banks for their own accounts hold $11,649 million of the three maturing bills. These accounts are considered to hold $6,274 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 $8,068 million of the three maturing issues as agents for foreign and international monetary authorities. Up to $3,000 million of these securities may be refunded within the offering amount in each of the auctions of 13-week bills and 26-week bills at the weighted average discount rate of accepted competitive tenders. Additional amounts may be issued in each auction for such accounts to the extent that the amount of new bids exceeds $3,000 million.

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-1767

HIGHLIGHTS OF TREASURY OFFERINGS OF WEEKLY BILLS TO BE ISSUED JUNE 26, 1997

June 17, 1997

<u>Offering Amount</u>	$7,000 million	$7,000 million
<u>Description of Offering</u>:		
Term and type of security	91-day bill	183-day bill
CUSIP number	912794 5N 0	912794 5Y 6
Auction date	June 23, 1997	June 23, 1997
Issue date	June 26, 1997	June 26, 1997
Maturity date	September 25, 1997	December 26, 1997
Original issue date	March 27, 1997	June 26, 1997
Currently outstanding	$11,546 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 Daylight Saving time on auction day

Competitive tenders . . . . Prior to 1:00 p.m. Eastern Daylight Saving 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

Very Preliminary

Major Tax Cut Provisions in the Senate Finance Committee Chairman's Mark (1)

(1998 Income Levels)

Family Economic Income Quintile (2)	Number of Families (millions)	Average Tax Change ($)	Total Tax Change: Amount (3) ($M)	Total Tax Change: Percent Distribution (%)	Tax Change as a Percent of: Current Federal Taxes (4) (%)	Tax Change as a Percent of: Family Economic Income (%)
Lowest (5)	21.6	-12	-264	0.4	-2.10	-0.13
Second	22.2	-64	-1428	2.3	-2.32	-0.26
Third	22.3	-274	-6095	10.0	-3.86	-0.64
Fourth	22.3	-583	-12964	21.3	-4.20	-0.81
Highest	22.3	-1789	-39837	65.5	-4.38	-0.97
Total (5)	111.3	-547	-60836	100.0	-4.19	-0.82
Top 10%	11.1	-2338	-26036	42.8	-3.93	-0.89
Top 5%	5.6	-3137	-17489	28.7	-3.58	-0.83
Top 1%	1.1	-7081	-7945	13.1	-3.06	-0.75

Department of the Treasury
Office of Tax Analysis

June 16, 1997

(1) This table distributes the estimated change in tax burdens due to the major tax cut proposals in the Senate Finance Committee Chairman Mark which include the following i) a child credit; ii) a modified HOPE scholarship tax credit; iii) a deduction for student loan interest; iii) deduction for education expenses paid through State-sponsored prepaid tuition programs; iv) permanent extension of Section 127; v) education investment accounts and private prepaid tuition programs; vi) expanded front-loaded and new back-loaded IRAs; vii) Capital gains provisions (lower individual rates, extension of S. 1202, and $500,000 exclusion for gains on a principal residence; and viii) changes in the individual AMT.

(2) Family Economic Income (FEI) is a broad-based income concept. FEI is constructed by adding to AGI unreported and under-reported income, IRA and Keogh deductions; nontaxable transfer payments such as Social Security and AFDC; employer-provided fringe benefits; inside build-up on pensions, IRAs, Keoghs, and life insurance; tax-exempt interest; and imputed rent on owner-occupied housing. Capital gains are computed on an accrual basis, adjusted for inflation to the extent that reliable data allow. Inflationary losses of lenders are subtracted and gains of borrowers are added. There is also an adjustment for accelerated depreciation of noncorporate businesses. FEI is shown on a family rather than a tax-return basis. The economic incomes of all members of a family unit are added to arrive at the family's economic income used in the distributions.

(3) The change in Federal taxes is estimated at 1998 income levels but assuming fully phased in (2007) law and behavior. For the IRA provisions and education accounts, the change is measured as the present value of the tax savings from one year's contributions. The effect of the capital gains provision is based on the level of capital gains realizations under current law.

(4) The taxes included are individual and corporate income, payroll (Social Security and unemployment), and excises. Estate and gift taxes and customs duties are excluded. The individual income tax is assumed to be borne by payors, the corporate income tax by capital income generally, payroll taxes (employer and employee shares) by labor (wages and self-employment income), excises on purchases by individuals by the purchaser, and excises on purchases by business in proportion to total consumption expenditures. Federal taxes are estimated at 1998 income levels but assuming 2007 law and, therefore, exclude provisions that expire prior to the end of the Budget period and are adjusted for the effects of unindexed parameters.

(5) Families with negative incomes are excluded from the lowest quintile but included in the total line.

NOTE: Quintiles begin at FEI of: Second $16,950; Third $32,563; Fourth $54,758; Highest $93,222; Top 10% $127,373; Top 5% $170,103; ~~Top 1% $408,551.~~

RR-1768

Very Preliminary

Major Tax Cut Provisions in the Senate Finance Committee Chairman's Mark (1)

(1998 Income Levels)

Family Economic Income Class (2) (000)	Number of Families (millions)	Average Tax Change ($)	Total Tax Change: Amount (3) ($M)	Total Tax Change: Percent Distribution (%)	Tax Change as a Percent of: Current Federal Taxes (4) (%)	Tax Change as a Percent of: Family Economic Income (%)
0 - 15	18.5	-10	-194	0.3	-2.08	-0.12
15 - 30	21.8	-52	-1125	1.8	-2.24	-0.23
30 - 40	12.1	-152	-1828	3.0	-2.94	-0.44
40 - 50	9.7	-311	-3022	5.0	-4.14	-0.69
50 - 60	7.9	-426	-3350	5.5	-4.26	-0.78
60 - 75	9.4	-499	-4703	7.7	-3.92	-0.74
75 - 100	11.7	-804	-9400	15.5	-4.69	-0.93
100 - 200	15.6	-1440	-22462	36.9	-5.18	-1.09
200 & over	3 9	-3706	-14506	23.8	-3.43	-0.81
Total (5)	111.3	-547	-60836	100.0	-4.19	-0.82

Department of the Treasury
Office of Tax Analysis

June 16, 1997

(1) This table distributes the estimated change in tax burdens due to the major tax cut proposals in the Senate Finance Committee Chairman's Mark which include the following i) a child credit; ii) a modified HOPE scholarship tax credit; iii) a deduction for student loan interest; iii) a deduction for education expenses paid through State-sponsored prepaid tuition programs; iv) permanent extension of Section 127; v) education investment accounts and private prepaid tuition programs; vi) expanded front-loaded and new back-loaded IRAs; vii) Capital gains provisions (lower individual rates, extension of S. 1202, and $500,000 exclusion for gains on a principal residence; and viii) changes in the individual AMT.

(2) Family Economic Income (FEI) is a broad-based income concept. FEI is constructed by adding to AGI unreported and under-reported income; IRA and Keogh deductions; nontaxable transfer payments such as Social Security and AFDC; employer-provided fringe benefits; inside build-up on pensions, IRAs, Keoghs, and life insurance; tax-exempt interest; and imputed rent on owner-occupied housing. Capital gains are computed on an accrual basis, adjusted for inflation to the extent that reliable data allow. Inflationary losses of lenders are subtracted and gains of borrowers are added. There is also an adjustment for accelerated depreciation of noncorporate businesses. FEI is shown on a family rather than a tax-return basis. The economic incomes of all members of a family unit are added to arrive at the family's economic income used in the distributions.

(3) The change in Federal taxes is estimated at 1998 income levels but assuming fully phased in (2007) law and behavior. For the IRA provisions and education accounts, the change is measured as the present value of the tax savings from one year's contributions. The effect of the capital gains provision is based on the level of capital gains realizations under current law.

(4) The taxes included are individual and corporate income, payroll (Social Security and unemployment), and excises. Estate and gift taxes and customs duties are excluded. The individual income tax is assumed to be borne by payors, the corporate income tax by capital income generally, payroll taxes (employer and employee shares) by labor (wages and self-employment income), excises on purchases by individuals by the purchaser, and excises on purchases by business in proportion to total consumption expenditures. Federal taxes are estimated at 1998 income levels but assuming 2007 law and, therefore, exclude provisions that expire prior to the end of the Budget period and are adjusted for the effects of unindexed parameters.

(5) Families with negative incomes are included in the total line but not shown separately.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED UNTIL 10 A.M. EDT
Text as Prepared for Delivery
June 18, 1997

TREASURY UNDER SECRETARY FOR DOMESTIC FINANCE
JOHN D. HAWKE, JR.
HOUSE GOVERNMENT REFORM AND OVERSIGHT
SUBCOMMITTEE ON GOVERNMENT MANAGEMENT,
INFORMATION AND TECHNOLOGY

Mr. Chairman and Members of the Subcommittee, thank you for the opportunity to appear before you today to discuss implementation of the law that requires the Federal government to issue payments electronically starting January 1, 1999. This new law, which excludes only tax refunds, has far reaching implications for millions of Americans. I commend the Subcommittee for the interest it has shown in improving government operations and your concern that this law be carried out in a manner that truly benefits all Federal payment recipients. We share these interests.

This electronic funds transfer initiative -- what we refer to as "EFT '99" -- includes four distinct elements:

- After July 26, 1996, all Federal payments (except tax refunds) to newly eligible recipients who have bank accounts, must be made by EFT.
- Starting January 1, 1999, all Federal payments, with the exception of tax refunds, must be made by EFT.
- Treasury is directed to ensure that all recipients who are required to receive payments electronically will have access to an account at a financial institution at a reasonable cost, and with the same consumer protections as other account holders at that financial institution.
- The Secretary is authorized to grant waivers based on recipient hardship; for classes of checks; or where otherwise necessary.

RR-1769

Treasury was given these responsibilities because of its role as the government's chief disburser. Last year, Treasury's Financial Management Service (FMS) issued over 850 million payments on behalf of non-defense agencies, including various types of benefits, Federal salaries, tax refunds, vendor payments, grants and loans.

The goal of the Department of Treasury is to issue payments by a method that will provide the best service to recipients, the lowest possible cost to taxpayers, and the greatest degree of transaction security. Treasury has been issuing electronic payments for over two decades, and our experience is that EFT is substantially more convenient, cost-effective, and secure than paper checks. Attached to my written statement is a chart that shows the benefits of EFT.

As the chart shows, EFT payments will save taxpayers money. The Government's cost for an EFT payment is only \$.02, while check payments cost the Government \$.43 each. We estimate that full implementation of EFT '99 will save taxpayers approximately \$500 million over 5 years in postage and check production costs alone. The chart also shows a drastic decrease in payment inquiries and claims under EFT. Recipients are twenty times more likely to have a problem with a paper check than with an EFT transaction. Each year Treasury replaces over 800,000 checks that are lost, stolen, delayed or damaged during delivery. Waiting days for a replacement check is an inconvenience and burden on recipients, especially those living on low incomes. Misrouted EFT payments are never lost, and are typically routed to the correct bank account within 24 hours. In addition, the chart shows that EFT increases transaction security and significantly reduces opportunities for crime. On average, over 75,000 Treasury checks per year are forged and fraudulently negotiated. Forgeries, counterfeiting, and check alteration are non-existent with EFT payments.

Mr. Chairman, I would now like to share with you the principles that Treasury is following in implementing EFT '99.

TREASURY PRINCIPLES

In implementing the provisions of the statute, we believe the following principles should be observed:

- The transition from a paper-based system to an electronic transfer system should be accomplished with the interests of recipients ranking of paramount importance.
- Our objective should be to assure that we maximize private sector competition for the business of handling Federal payments, so recipients not only have a broad range of choice of payment services and service providers, but also that they receive their payments at a reasonable cost, with substantial consumer protections, and with the greatest possible convenience, efficiency, and security.
- All recipients, and especially those recipients having special needs -- the elderly, individuals with physical, mental or language barriers, those living in remote or rural communities -- should not be disadvantaged by the transition to electronic payments.

- The EFT '99 program should, to the maximum extent possible, seek to bring into the mainstream of our financial system, those millions of Americans for whom the system is as a practical matter not presently available.

These principles serve as our guideposts as we move through the implementation process.

ACCOMPLISHMENTS

Since the passage of the Debt Collection Improvement Act in April of 1996, Treasury has made significant progress in our implementation efforts. We released an interim rule on July 26, 1996, implementing the first phase of the conversion from check to EFT-- that applying to newly eligible recipients. This interim rule requested comment on the issues related to January 1999 EFT mandate. Treasury received a total of 29 comment letters from various stakeholders, such as consumer groups, government vendors, financial institutions and other Federal agencies. Stakeholder comments were generally very supportive of the mandatory EFT initiative and its implications for their constituents.

In addition to receiving comments in response to the interim rule, Treasury has undertaken extensive outreach efforts. These efforts include meetings with various interest groups, including consumer groups, vendors, financial trade associations, and financial services providers (including bank and non-bank entities.) Our outreach efforts to consumer organizations began in earnest with a meeting that I convened last November. Treasury representatives have met with 11 different consumer groups over the nine months since July 1996. Treasury also held an EFT '99 consumer briefing session in April attended by over 30 consumer groups.

Treasury representatives have met with 17 financial services providers since the publication of the interim rule. These providers include financial institutions as well as non-bank entities, such as check cashers, automatic bill payers, and other financial services providers. In addition, Treasury held an EFT '99 briefing session that was attended by a number of financial trade associations. In partnership with the Federal Reserve Banks and the American Bankers Association, we have reached over a thousand financial institutions in nationwide seminars held since October 1996. These seminars will continue through September 1997.

Treasury has also been meeting with Federal agencies to develop EFT implementation plans. These meetings have enabled us to educate agencies on the provisions of the Act and also have provided a forum for agencies to inform us of any potential challenges to EFT implementation. We obtained additional feedback from interagency policy workgroups that were formed to address major EFT conversion issues, such as international payments, disaster payments, and vendor payments.

In April of this year, we met with a group of government vendors to discuss their concerns regarding the EFT '99 initiative. Since the passage of the EFT legislation, we have also worked closely with Federal agencies, the Federal Reserve, and financial institutions to identify and address issues associated with converting vendor payments to EFT. I will discuss

these issues further in just a moment.

Treasury obtained further insight into the issues associated with implementing the EFT '99 initiative by contracting for two research studies. The studies were used primarily to obtain information regarding the characteristics of Federal check recipients and to better understand the needs of those recipients, including how best to educate this population on the advantages of electronic payments.

We have seen tremendous momentum in converting benefit check payments to EFT. The Social Security Administration, for example, has seen its Direct Deposit enrollment rate nearly triple since the legislation went into effect on July 26, 1996. This is the result of the required use of Direct Deposit by newly entitled beneficiaries, as well as an aggressive marketing campaign SSA has developed with financial institutions to encourage the conversion to EFT. In addition, the EFT enrollment rate for other types of Federal payments has increased as well. From FY96 year-end to mid FY97, the percentage of all Treasury disbursed EFT payments has increased four percent from 53 to 57 percent of total Treasury disbursements. Clearly, more and more people are seeing the benefits of receiving payments by electronic means. However, we realize that we have much more to do to reach our goals.

MAJOR ISSUES & CHALLENGES

The immediate challenge we are facing is publishing a proposed rule to implement the second phase of EFT '99. Due to the far reaching implications of this rule and the many complex issues involved, Treasury is considering all factors before publishing the proposed rule. Our goal in this rulemaking process is to develop policies that are simple, clear, and, most importantly, effective in dealing with the difficult issues associated with mandatory EFT. We anticipate a July 1997 release date with a 90-day comment period for the proposed rule.

By far, the most complex and controversial policy issue confronting us in our efforts to implement EFT '99 is how to meet the needs of recipients without bank accounts. Under the existing Federal payment system, electronic payments may only be deposited into accounts at financial institutions. As a result, the population of Federal payment recipients without bank accounts is currently precluded from receiving the benefits of Direct Deposit.

Secretary Rubin has made it one of his highest priorities to encourage people without bank accounts to move into the financial services mainstream. Financial services providers offer many services that are critically important, if not essential, to virtually all American families. These may include access to federally insured deposits, the opportunity to earn interest on deposits, the availability of personal credit, and access to home mortgages. Some 40 million American households with incomes under $25,000 need these services.

Many payment recipients without bank accounts have told us that the lack of reasonably priced financial services currently prevents them from moving into the financial mainstream. As a result, Treasury has devoted significant effort to increasing the availability of low cost banking services. Treasury's Direct Deposit Too program encourages banks to offer a reasonably priced

basic account. Direct Deposit Too is a model account, based on debit card access with no minimum balance requirement, that has been suggested to banks as a low cost alternative to traditional checking accounts. For recipients who are unable to obtain low cost financial services through the private sector, Treasury is also developing a nation-wide electronic benefits transfer system.

We recognize that some recipients of checks will be unable to receive payments electronically because of their personal circumstances. In the proposed regulation, Treasury will solicit comments on the circumstances under which a recipient may be waived from receiving payment electronically. We will take into consideration not only geographic, physical, financial and mental barriers, but other compelling circumstances.

A major issue associated with implementing the mandatory EFT requirement is how we convert vendor payments to electronic funds transfer. Although vendor payments comprise only 2% of total Federal payments, they represent a much larger percentage of non-benefit agency payments -- between 10 and 30 percent, depending on the agency.

Vendor EFT enrollment has increased approximately 60% from FY96 year-end to mid FY1997. However, the total percentage of vendor EFT participation is still only 26%. Historically, vendors have been slow to enroll voluntarily in the electronic funds transfer program. This is partially attributable to obstacles associated with disbursing electronic payments to vendors. One major challenge is that many vendors are not able to access the remittance information that is transmitted along with electronic payments. As a result, when payments are credited to their accounts, it may be difficult for them to reconcile their accounts receivable.

This problem occurs because many small to medium sized banks do not have the special software that is needed to translate to readable form the information that is transmitted with electronic payments. It is estimated that of the approximately 11,000 banks capable of accepting an electronic payment, fewer than a thousand can translate the remittance data into a readable form for their customers.

Treasury is currently working with other Federal agencies, financial institutions, and vendors to address these problems and develop low cost solutions. For example, we are talking with NASA and their vendors on a developing a pilot that will allow NASA's vendors to access remittance data through an FMS web site. The substantial increase in the Government's use of the IMPAC card, expansion of programs like the GSA Advantage program and publication of the EDI Handbook and the Agency Implementation Guide for CTX payments will further facilitate conversion to electronic payments. We believe initiatives such as these and others being done by other agencies will raise the level of awareness of options available to vendors, thereby spurring a movement by vendors to EFT. In addition, Treasury is reviewing current laws, such as the Prompt Payment Act, with the intention of removing disincentives to using EFT.

PUBLIC EDUCATION

Now I would like to discuss one of the most significant aspects of our plan to implement EFT '99. Aside from our other implementation efforts, we plan to conduct a comprehensive public education campaign to ensure that there is sufficient information available to stakeholder groups and the public about the requirements of the mandatory EFT legislation.

In FY 1997, Treasury will provide informational services to financial institutions to ensure that they are operationally prepared for handling the increased demand for EFT services. In addition, we will continue our interaction with consumer groups, government vendors, financial trade associations, and other government agencies to ensure that they are aware of the implications of the EFT legislation, and that they are given ample opportunity to express their concerns.

We will also roll out a nationwide public awareness campaign that will encourage check recipients to convert voluntarily to electronic funds transfer in advance of the January 1, 1999 deadline.

Components of this campaign include messages to current check recipients about the law, about the safety and convenience of EFT, and about the way to sign up for Direct Deposit. Another key aspect of this campaign is educating those check recipients without bank accounts on how to maintain a bank account, including instruction on basic finances to help them make the best informed choices.

A grassroots public outreach effort will involve identifying hundreds of local community organizations that will assist our efforts in reaching current check recipients. I believe this grassroots effort is critical to the success of converting current check recipients (both banked and unbanked) to electronic payments.

The public education campaign will use a variety of communications vehicles to reach recipients, including television, radio, direct mail, and check inserts. Treasury included Direct Deposit inserts in all Federal benefit checks mailed in April of this year.

In summary, the objectives of this campaign will be to partner with the private sector and other Federal agencies; to educate consumers to make good choices; and to minimize disruption to recipients while adding value to the way they conduct their finances. Seamless coordination is a necessity if the public education campaign is going to succeed. Each governmental entity must work in collaboration with the other, providing reinforcement, assistance and a shared set of objectives.

CONCLUSION

In conclusion, Mr. Chairman, the Treasury Department believes that this legislative mandate provides an important opportunity for us to provide the high quality of service that our customers want and need, and at the same time to lower the cost to taxpayers. Benefit recipients

have told us that they want to be able to receive their payments at points that are easily accessible and that increase their safety and security if this can be done at a reasonable cost. Our proposed regulations will attempt to address these needs. We welcome, encourage, and look forward to the public comments that we will receive on our proposal.

We look forward to working with the Committee as we move forward on this initiative.

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EFT: Reduces Cost and Payment Risk

	EFT	Check
Cost per transaction	2 cents	43 cents
Inquiries	76 thousand	1.7 million
Claims	10 thousand	600 thousand
Forgeries	none	$60 million
Counterfeit	none	$1.8 million
Altered	none	$3.3 million
Resolution of Payment Inquiries	24 hours (best)	14 days (best)

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED UNTIL 1:15 P.M. EDT
June 18, 1997
Text as Prepared for Delivery

Remarks of John D. Hawke, Jr.
Under Secretary of the Treasury for Domestic Finance
before the
20 Annual Legislative and Technology Conference of the
Electronic Funds Transfer Association
June 18, 1997

I am honored today to address the 20th Annual Legislative and Technology Conference of the Electronic Funds Transfer Association. This distinguished organization has watched over EFT since its infancy, and now, as that one-time child approaches maturity, you should be proud of your handiwork.

Today, many believe the rapidly evolving electronic payments structure will revolutionize the global economy. New products are being designed to replace currency and checks in routine transactions, and new systems allow payments over the Internet. As in the 1970s, the imminent end of paper in the payments and transactions systems is being forecast. This may turn out to be true, or it may yet again prove to be premature.

To be sure, we have often had difficulty in predicting the impact of technology on commerce and society. For example:

- When Mr. Bell invented the telephone, he expected that it would be used primarily to replace the telegraph in railroad scheduling. And when Marconi invented wireless, he thought its primary use would be for communication between ships at sea.

- Computers were developed during World War II to calculate artillery logistics tables, and in 1945 the distinguished White House science advisor Vannevar Bush predicted that business would have need for, at most, several dozen computers.

RR-1770

- The ARPANET was developed during the 1960s by the Defense Department as a fail safe communications network in the event of nuclear war -- but the ARPANET evolved into the Internet. And speaking of the Internet, who only a few years ago anticipated the explosive growth in Internet resources or usage?

The history of Automated Clearing Houses indicates that while the creation of new technology providing an interbank electronic clearing system was easy, it has been more difficult to develop electronic payment products based on this technology that are more convenient and cost effective, and more acceptable to consumers, than paper. In our enthusiasm over new electronic payment systems, it is easy to underestimate the convenience of paper and the costs and difficulty of building broad-based support for new electronic payments systems. In the ACH case, it is also possible that government policies may have actually retarded efforts by the private sector to develop alternative technologies.

U.S. payment systems present a paradox. Our systems for handling high-value dollar payments are all electronic and have been for many years; financial records have been computerized since the 1960s; and securities markets rely on heavily automated systems. However, for transactions initiated by consumers, paper -- currency and checks -- remains the payment system of choice. Debit and ATM Cards and ACH payments account for a very small percentage of transactions, and credit cards have only recently begun to challenge paper's dominance.

As electronic payment systems evolve, the government's regulatory role is to assure that appropriate private sector risk management systems are in place. As financial systems become more complex, detailed rules can become burdensome, ineffective, and sometimes counterproductive, and I believe that it is crucial to ensure that regulations do not inhibit innovations in electronic payment systems. The lesson from the ACH experience is that consumers and business -- not government -- will ultimately determine what new products are successful in the marketplace.

Today, there are several major factors driving the electronic payments revolution:

The first is a sharp decline in the cost of computing and the concurrent increase in computer power. The old rule of thumb about personal computers -- double the power at half the cost every 18 months -- seemed amazing enough. However, that trend is accelerating and spreading beyond the standard desktop configuration to peripherals such as modems and CD-ROMs.

The second factor is continuing advances in communication technologies. Ten million Americans are currently connected to their offices via computer, and use of the Internet is increasing exponentially. These changes imply that companies and their customers no longer

have to conduct business face to face and thus no longer have to reside in the same state, county, or town -- or country.

Third is action by Congress. Last year, Congress passed the Debt Collection Improvement Act, which requires the Federal government to convert all of its payments (except tax refunds) from paper checks to EFT by January 1, 1999. This mandate, which we refer to as EFT '99, will have a very significant impact. I will say more about EFT '99 shortly.

Fourth, electronic payments eliminate the costs of handling cash ($60 billion annually), and EFT '99 itself will generate significant savings. For example, cost savings to the banking industry alone from EFT '99 could total $500 million annually. Electronic payments also reduce collection and deposit float, provide faster funds availability, increase sales due to faster checkout, and permit self-service. Other benefits include reduction in credit card and check fraud and increased safety and security -- e-money reduces vandalism of vending machines and public phones, and retail establishments and service providers are much less vulnerable to robbery.

Finally, electronic money is more convenient than other payment mechanisms for small value purchases: It is easier to use than cash, checks, or credit cards.

As the revolution moves forward, innovation in electronic payment systems present challenges for government policy makers in a number of areas -- including consumer protection, law enforcement, government operations, and international cooperation.

In order to address consumer concerns, we must develop policies to address:

- *Liabilities.* Some consumers holding electronic cash will lose their money in the case of accident, theft, or the failure of issuer. How should such losses be allocated?

- *Disclosure.* Existing rules governing transactions and disclosures may not extend to some e-money activities. While the EFTA and Reg E apply to electronic debits, no similar rules apply to electronic transactions, and disclosure for EFT transactions applies to debit systems, but not necessarily to e-money.

- *Privacy.* Electronic payment systems may permit access to private information, and Internet payments can be intercepted. Every day we hear a new story about the success of some hacker.

- *Access.* The poor may be denied equitable access to electronic payment systems. EFT '99 squarely confronts us with the challenge of how to bring the unbanked into the financial system.

Those involved in law enforcement argue that electronic payments permit anonymous transactions without a "paper trail," and thus facilitate financial crimes and reduce the risk of apprehension. If use of electronic money becomes pervasive, government may face the question of whether its law enforcement capabilities are sufficient to meet its responsibilities.

The Federal government has already begun to utilize electronic payment systems to increase efficiency and reduce the cost of government operations. As noted, EFT '99 mandates electronic funds transfers for all Federal payments (except tax refunds) by the beginning of 1999. The government is also undertaking several other initiatives to realize the cost savings offered by EFT, including electronic benefit transfer pilots.

Finally, electronic payments can make geographic boundaries irrelevant. Within the U.S., this reality creates problems concerning the applicability of state laws to interstate transactions. Where *does* an Internet transaction take place, after all? International electronic money transactions pose even more significant potential challenges, and governments may find it difficult to enforce electronic money-related rules involving personal privacy and tax collection.

The emergence of new electronic payment methods raises a number of other Federal concerns. One is how regulations such as reserve requirements, deposit insurance, and consumer protection laws will apply. Others include the effect of the new payment systems on the Federal budget and monetary policy. If, the market for these payment systems emerges slowly, as is likely, there will be time for gradual adjustment and the development of appropriate government policies. There is a clear possibility, however, that we will be faced with dramatic advances that will cause these concerns to mature before we have developed the solutions to deal with them.

We recognize that electronic payment systems are advancing more rapidly than the laws and regulations to govern them, and this Administration does not want to impose regulations prematurely for fear of stifling a fledgling industry. Nevertheless, resolving some legal ambiguity, even if only provisionally, may facilitate acceptance of the new payment systems by consumers and businesses. We have five broad objectives in developing policies to govern emerging electronic payment systems:

- Limiting systemic and other risks that threaten the stability of financial markets or undermine confidence in the payment system.

- Providing consumers with appropriate protection.

- Encouraging development of effective, low-risk, low-cost, and convenient payment services.

- Ensuring the Fed's ability to conduct monetary policy.

- Facilitating appropriate law enforcement.

The Administration recognizes that innovation and competition in electronic payment systems provide important efficiency and consumer benefits, and it firmly supports a non-regulatory, market-oriented approach to electronic commerce. By acknowledging the unique characteristic of emerging electronic payment systems and avoiding undue restrictions, I believe that the government can take advantage of an historic opportunity and contribute to the growth of electronic commerce worldwide.

However, for electronic commerce to flourish the private sector must lead. Innovation, expansion of services and participants, and lower prices will depend on electronic payment systems and innovations remaining market driven, not operating as a regulated industry. We thus believe that government should avoid undue restrictions and unnecessary regulations, bureaucratic procedures, or new taxes on electronic commerce. Where Federal action is required, it must support a predictable, minimalist, and consistent legal environment and be based on a decentralized, contractual model of law rather than on top down regulation.

We also believe that electronic commerce should be facilitated on an international basis. While we recognize that there are differences in national legal systems, the legal framework supporting commercial electronic transactions must be governed by consistent principles regardless of the country in which the buyer or seller resides. The Clinton Administration worked with its partners in the G-7 to develop the recently-completed analysis of these international issues.

Finally, in order to examine the opportunities and challenges presented by these new payment systems, we have formed an electronic payments task force, which includes representatives of the Federal Reserve Board, the FDIC, the FTC, and the Treasury Department, the principal Federal agencies involved in electronic payments.

I would like to conclude with a few brief remarks about EFT '99 -- which will accelerate the movement in the U.S. toward electronic payments.

As I noted earlier, EFT '99, which was enacted last year, requires the Federal government to make all of its payments (except tax refunds) electronically by January 1, 1999. EFT '99 is a comprehensive effort involving the entire Federal government, the Federal Reserve, the financial services industry, trade associations, and Federal payment recipients. It will soon result in millions of Americans being brought into the modern financial system for the first time, and will dramatically change the way in which money is handled. This program presents many challenges to both the government and the payments industry, and partnerships

between the government and the industry will play a major role in determining the success of EFT '99.

EFT '99 will create unique opportunities for private industry. Millions of consumers and thousands of vendors will soon be seeking electronic payment services -- for example, Social Security recipients will need a way to receive direct deposits if they don't presently have a bank transaction account, and vendors will be looking to financial institutions to provide payment services. Senior citizens will require information on how direct deposit works, welfare recipients will need information on types of deposit accounts, and companies will need information about electronic data interchange. Treasury is forming partnerships with all parties impacted -- including the payments industry -- to ensure that the EFT '99 goals are met. Success depends on these relationships.

One of the major challenges will be to encourage the approximately 30 million currently unbanked persons -- more than 10 million of whom are regular recipients of federal payments -- to establish relationships with financial institutions. These unbanked persons rely on check cashers, pawn shops, money transfer agents, or local merchants to cash their payroll or benefit checks, frequently at high cost. The challenge is to provide low cost accounts for these individuals. The Federal government would like to partner with financial institutions and the payments industry to develop new types of accounts that will meet the needs of the unbanked, such as electronic access only accounts where funds can only be deposited electronically through direct deposit and withdrawn electronically via ATMs or POS terminals.

We fully recognize that many current recipients of checks will have a strong desire to continue receive paper payments, whether or not they have a bank account. Some may find it more costly to maintain an electronic account, others, because of handicaps or location, may confront a hardship in making the transition. As we consider how to frame standards for waivers from the mandatory requirements of EFT '99 we will have the interests of these recipients very much in mind. While we believe strongly that EFT offers enormous benefits over paper checks, it is not at all our intent or desire to implement EFT '99 in a way that will disadvantage millions of Americans. Indeed, to make EFT '99 work, it is essential that we retain a broad base of political support for the transition, and I can think of no more effective way to retard progress than to force this new payment process on millions of people who have serious and legitimate reasons for wanting to continue to receive checks.

Early experience with electronic benefits transfer or EBT programs suggests that EFT '99 will have widespread acceptance. EBT enables delivery of government benefits electronically using a plastic card to access cash and food benefits at ATMs and POS terminals. In partnership, the government and the private sector have built the foundation of EBT and are now focusing on national rollout of EBT systems for food stamps and other state-administered payments. The transformation from a paper-based to an EBT system will convert $111 billion annually in paper-based benefit issuances, such as checks, vouchers, and food stamps, to a secure, streamlined electronic delivery of benefits.

A particular challenge presented by EFT '99 is vendor payments. Government vendors must accept EFT payments by January 1, 1999, and by that time more than 40 million annual Federal payments to corporations will be made primarily through ACH. However, many financial institutions do not have the capability to pass on crucial information with EFT payments, and as a result vendors frequently have difficulty reconciling lump sum payments on individual invoices. Treasury has formed partnerships with private industry to establish alternative methods to transmit this information electronically to vendors, including voice response systems, electronic fax, fax-on-demand, e-mail, and Internet access to payment information. Reasonable cost is also a concern, and obtaining the information electronically should not be more expensive for the vendors than receiving it on a check stub.

Treasury is working closely with all Federal agencies, the Federal Reserve, the payments industry, private firms, consumer groups, state governments, and other parties to ensure a smooth transition to EFT. We are developing a nationwide education and marketing program, and beginning in late 1997, the program will encourage voluntary conversion of current Federal check recipients to EFT, stressing that EFT is good for everyone and that it is a reliable and safe way to obtain money.

This Administration's policy concerning electronic payment systems is to rely on private initiatives and to regulate only when national security or system safety issues warrant, and Treasury is proceeding in partnership with private interests to develop workable security programs so it may soon adopt this media. The government's challenge is to identify potential issues and responses and to determine the time frame within which it needs to act. We believe that widespread competition and increased consumer participation and marketplace choices, not government regulations, should characterize the emerging electronic payments systems.

In closing, let me again emphasize that we support the approach of government, industry, and consumers working together -- that is exactly how we must work as we go forward to realize the enormous benefits from this exciting new dimension of the information age.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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June 19, 1997

TREASURY DEPUTY SECRETARY
LAWRENCE H. SUMMERS
SENATE APPROPRIATIONS SUBCOMMITTEE ON TREASURY
AND GENERAL GOVERNMENT

I am pleased to be here today to talk with you about Treasury's plan to implement lasting solutions to the difficulties the IRS faces. Before I begin, I would like to thank the Chairman, the Ranking Minority Member and the other members of this Committee for their leadership on the matter of IRS reform. With me today are Acting Commissioner of the IRS, Michael Dolan, Chief of Management and Administration, David Mader and Chief Information Officer, Arthur Gross. In addition, I hope you will join me in recognizing and thanking the more than 100,000 loyal and dedicated IRS employees who carry on the unpopular but vitally important task of collecting 95% of our government's revenue.

Management Reform

Mr. Chairman, recent announcements of problems in modernizing the computer systems of the IRS have focused attention on the shortfalls of the information technology of the Service. At the same time, improvements in customer service in the private sector have led the American people to expect interactions with the IRS to be as efficient and straightforward as interactions with credit card companies and other private-sector financial institutions. This has occurred at a time when the IRS is also coping with an increased workload. This year, the IRS processed over 2 billion pieces of paper which, if placed side by side, would stretch over 200 miles. These developments have provoked an important debate about how best to improve the Internal Revenue Service.

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Over the last few years, the Treasury Department has focused intense efforts on improving the IRS. This Committee and others within the Congress have held extensive hearings on the matter. A consensus has emerged among a wide group of stakeholders, from business executives to Members of Congress to leaders of the IRS and National Treasury Employees Union on the need for change.

I believe that, in the next year or so, we have the opportunity and the obligation to bring about the most far-reaching changes in decades in how the IRS is managed and how it does business. 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.

Mr. Chairman, I know you and the Committee face many difficult choices as you work to balance priorities and funding for the coming fiscal year. We recognize that this Committee has provided critical support for making the necessary changes. But we also recognize the constraints imposed by the effort to balance the Federal budget by 2002. Our budget request for the IRS therefore maintains operations essentially at the FY 1997 level, providing the resources to support current staffing levels -- which are over 12 percent below FY 1993 levels. Our proposal will include funding to address the Century Date change -- an issue not unique to the IRS, but one that could be disastrous for our tax system if not addressed effectively and quickly.

Indicators of progress

Secretary Rubin and I recognized last year in testimony before the Appropriations Committees that the IRS's 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. The results, while still in their early stages, give the IRS a solid foundation on which to build, and are already producing benefits. Some examples of the steps we have taken include the following:

- We have appointed a new Chief Information Officer at the IRS, Art Gross. Mr. Gross brings to the IRS considerable systems integration and tax systems modernization experience from his years with the State of New York.

- In May 1997, after many months of intense preparation, Mr. Gross released the IRS's *Blueprint for Technology Modernization*, which was well-received in the professional information technology (IT) communities both inside and outside the government. This *Blueprint* is a significant and critical first step in getting IRS on the right track for IT management, and represents the first comprehensive attempt to form a strategic partnership on IT with the private sector.

- Following up on the *Modernization Blueprint*, we submitted a Request for Comment for a Tax Systems Modernization prime contractor to Congress and to industry on May 15.

- Based on the reviews performed by Mr. Gross and senior IRS leaders of the technology efforts underway at the IRS, we cut and collapsed the number of projects by nearly two-thirds -- from 26 to nine.

- The IRS has increased outsourcing. The percentage of work on tax systems modernization performed by contractors 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. We are also developing an outsourcing strategy for submissions processing.

Some other activities currently underway include the following:

- The IRS is now working with a top marketing firm on an electronic filing marketing strategy to bolster taxpayer participation in the entire line of IRS electronic filing products, including Telefile, On-line filing, 1040-PC filing, and traditional electronic filing. The bureau is also putting forth a Request for Information (RFI) that will produce opportunities for partnering with the private sector to increase electronic filing.

- A joint Treasury, IRS, and National Performance Review (NPR) task force is conducting a 90-day study of customer service. The study will draw on the experience of front-line employees and will focus on the issues that touch customers most deeply. Among other tasks it will attempt to identify ways to improve notices, the quality of walk-in center assistance, and training.

I understand that the IRS is providing separate testimony describing in further detail the progress that is occurring at the IRS in customer service, electronic filing and other performance measures. The steps we have taken so far 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. But I believe that we have set up an effective structure for reforming the IRS, and that we are making progress towards our vision of a tax system that serves taxpayers better, collects more unpaid taxes, and is more efficient.

The Treasury Department's Five-Point Plan for the IRS

Let me now present our broad approach to IRS reform. We are determined to bring about changes in the way the IRS uses information technology, provides customer service, monitors tax compliance, and manages its own resources. As with any institution, however, there is a right way and a wrong way to make change. We believe that the approach described below is the right way: it charts a new course for the IRS, but does so without jeopardizing the institution and our nation's revenue stream. Our approach has identified five critical areas to effect this "right" kind of change: (1) oversight; (2) leadership; (3) flexibility; (4) budgeting;

and (5) tax simplification. I will address each of these in turn.

1. Strengthening Oversight

First, Treasury has strengthened its oversight of the IRS and is committed to institutionalizing this oversight function. Oversight of the IRS by the Treasury Department is essential to ensuring accountability for the American people and to coordinating tax administration with tax policy.

Last March, I announced the formation of the Modernization Management Board (MMB) comprised of senior officials from Treasury, the IRS, and other parts of the Administration. Initially, the MMB evaluated only information technology issues. Now, however, it is beginning to oversee the entire range of IRS activities. We are asking that the President sign an Executive Order that expands the powers of the MMB by making it permanent and clarifying that its responsibilities cover the broad range of strategic issues facing the IRS. This new Internal Revenue Service Management Board will meet at least monthly and will prepare semi-annual reports to the President and the Congress, which will be transmitted by the Treasury Secretary.

The Executive Order will also contain the requirement that the Secretary and Deputy Secretary make themselves available twice yearly to Congress to report on the IRS.

We will also establish the IRS Advisory Board, to report directly to the Secretary of the Treasury. This board will be comprised of senior business executives, experts in information technology, small business advocates, tax professionals, and others. It will meet regularly to make recommendations on major strategic decisions facing the IRS, and will issue an annual report to the American people and the Congress. This new Board will provide an additional vehicle for the private sector input from which the IRS can so clearly benefit, without compromising the bureau's government responsibilities, such as enforcing federal tax laws and ensuring the equitable administration of the tax system.

These three steps, creating a permanent management board, requiring the Secretary and Deputy Secretary to report to Congress semi-annually and creating an advisory board comprised of outside experts will institutionalize the oversight function.

In recent weeks, however, there has been considerable interest in a more radical model of oversight. As you know, two weeks ago, the National Commission on Restructuring the IRS proposed that the IRS be governed by an outside board of private citizens who serve on a part-time basis. We believe that a private-sector board would not meet frequently enough to address the critical and complicated decisions facing the bureau over the next decade. The challenges the IRS faces and the size and complexity of the institution demand more than the part-time and sporadic attention that the Commission's proposed board would provide.

In contrast, Secretary Rubin and I, as well as other Treasury officials, are available every

day to discuss pressing issues with the IRS. Treasury oversight is also critical because tax policy and tax administration are inexorably linked. The IRS's relationship with Treasury provides an effective mechanism for presenting to senior Administration officials the IRS' analysis of the impact of proposed tax changes on tax administration. I raise such concerns frequently in tax policy discussions in the White House and elsewhere throughout the Administration. Furthermore, Treasury oversight allows the IRS to draw upon Treasury resources for critical projects, as demonstrated by our current cooperation on the Year 2000 conversion.

2. Recognizing the importance of leadership

The second element of our approach to the IRS is recognizing that leadership is crucial to performance. As we move forward, we are excited by the prospect of appointing a new Commissioner with experience in managing organizational change, customer service improvement, and information technology challenges. We also will be proposing legislation to create a five-year fixed term for the Commissioner, to provide the continuity and leadership necessary for guiding the bureau into the next century.

Taken together, the first two elements of our plan, strengthened oversight and renewed leadership can achieve the critical goals of ensuring continuity, outside input and accountability without putting at risk the progress underway at the IRS or the vital functions of government.

3. Enhancing IRS management flexibility

The third component of our five-point IRS strategy is to enhance and strengthen the IRS's ability to manage its operations, working with Congress and the union to improve management flexibility in personnel and procurement. In return, employees of the IRS, as in any well-managed business, will be held accountable for results. In addition, we will enhance and strengthen the IRS's ability to manage its operations. For example:

- 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. This might include providing recruitment, retention and relocation incentives and using commercial recruiting firms to identify and screen employment candidates. Thus, the IRS faces a multitude of restrictions -- restrictions that would be unacceptable in the private sector -- that hamper its ability to provide efficient service. Some changes may require legislation, and we expect to propose this legislation to Congress later this year.

Let me add that in taking these steps, we are committed to maintaining the independence and freedom of the IRS from political influence.

4. Obtaining stable funding

The fourth component of our strategy is to work with Congress to obtain stable and predictable funding for the IRS. Today, the IRS operates in a low-trust, short-tether budgeting environment. This unduly complicates rational planning for capital projects in areas such as information technology. As we demonstrate that the IRS is investing its resources more prudently, Congress should consider longer-term approaches to budgeting. To this end, the FY 1998 budget proposes multi-year investments for technology. This multi-year proposal would provide funding stability as the IRS modernizes its information technology operations.

Over time, the Administration and Congress will have to give careful consideration to the appropriate size of the IRS budget. The IRS budget has declined by more than nine percent in real terms over the last two years. Reducing expenditures on compliance run counter to the goal of reducing the federal deficit. Over the long term, the IRS estimates that every dollar invested in IRS enforcement returns at least $4 in actual collections. For example, in 1995, we undertook to invest $2 billion over five years to increase compliance. In the first year of that program, we more than exceeded the targets established for revenue gains.

Looking forward, there are conflicting pressures on the IRS budget. Efficiency improvements are surely possible through information technology, which should enable us to reduce the budget in the long term. But we must also strive to meet expanding customer service expectations, which could increase our budget requirements. And to promote fairness and integrity in implementing tax laws while keeping pace with increasingly complex business transactions, we should also invest additional resources in compliance.

5. Simplifying the tax code

The fifth component of our strategy is to simplify, wherever possible, a tax code that currently covers 9,451 pages. In April of this year, the Administration offered a series of simplification proposals as part of our overall plan to improve IRS operations. The proposed package, which could save taxpayers millions of tax preparation hours, contains more than 60 legislative proposals to reduce the complexities and paperwork burdens of the existing Internal Revenue Code and provide substantial new tax rights to the American taxpayer. It is important to stress that these proposals would simplify the tax code without the severely adverse distributional consequences that detract from most other simplification proposals.

We are pleased that Chairman Archer included most of our proposals in the recent Ways and Means Committee tax bill. Of the total of about 80 simplification proposals in his bill, we count 69 that are substantially derived from the Administration package. These measures, if enacted, will

improve the functioning and administration of the tax law for many taxpayers and the IRS.

However, we note that the pending bill also includes many new provisions that are complex, and some that are far too complex. In crafting legislation, simplification must always be weighed with other important tax policy goals, including fairness, equity, economic efficiency, progressivity and revenue impact.

Summary

These five steps -- institutionalizing oversight, introducing new leadership, increasing flexibility, obtaining predictable funding, and simplifying taxes -- provide a framework for improving our tax administration system. Of course, there are other critical issues that we must address. But I believe that progress on these five fronts is essential to addressing the IRS' problems.

Conclusion

This morning I have discussed some of the specific steps we are taking to modernize the IRS. In turn, I have discussed the broad five-point plan that we believe represents the best way to reform the management of the IRS.

The Treasury Department is committed to working with the IRS as it moves forward with its change effort. I look forward to working with members of this Committee and other interested parties in the coming months and years to meet the challenges faced by the IRS. I would welcome your questions.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED UNTIL 2:30 P.M.
June 18, 1997

CONTACT: Office of Financing
202/219-3350

TREASURY TO AUCTION 2-YEAR AND 5-YEAR NOTES
TOTALING $27,000 MILLION

The Treasury will auction $15,500 million of 2-year notes and $11,500 million of 5-year notes to refund $29,192 million of publicly-held securities maturing June 30, 1997, and to pay down about $2,200 million.

In addition to the public holdings, Federal Reserve Banks hold $1,122 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 $2,439 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 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.

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

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Attachment

RR-1772

HIGHLIGHTS OF TREASURY OFFERINGS TO THE PUBLIC OF
2-YEAR AND 5-YEAR NOTES TO BE ISSUED JUNE 30, 1997

June 18, 1997

Offering Amount	$15,500 million	$11,500 million
Description of Offering:		
Term and type of security	2-year notes	5-year notes
Series	AG-1999	H-2002
CUSIP number	912827 2X 9	912827 2Y 7
Auction date	June 24, 1997	June 25, 1997
Issue date	June 30, 1997	June 30, 1997
Dated date	June 30, 1997	June 30, 1997
Maturity date	June 30, 1999	June 30, 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	December 31 and June 30	December 31 and June 30
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 Daylight Saving time on auction day

Competitive tenders . . . Prior to 1:00 p.m. Eastern Daylight Saving 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

Very Preliminary

Ways and Means **Democrat's Package (1)**

(1998 Income Levels)

Family Economic Income Quintile (2)	Number of Families (millions)	Average Tax Change ($)	Total Tax Change: Amount (3) ($M)	Total Tax Change: Percent Distribution (%)	Tax Change as a Percent of: Current Federal Taxes (4) (%)	Tax Change as a Percent of: Family Economic Income (%)
Lowest (5)	21.6	-82	-1779	4.9	-14.16	-0.87
Second	22.2	-263	-5842	16.1	-9.48	-1.07
Third	22.3	-338	-7523	20.7	-4.77	-0.79
Fourth	22.3	-424	-9431	25.9	-3.05	-0.59
Highest	22.3	-520	-11578	31.8	-1.27	-0.28
Total (5)	111.3	-327	-36383	100.0	-2.50	-0.49
Top 10%	11.1	-742	-8268	22.7	-1.25	-0.28
Top 5%	5.6	-1249	-6966	19.1	-1.43	-0.33
Top 1%	1.1	-3966	-4449	12.2	-1.71	-0.42

June 8, 1997

(1) This table distributes the estimated change in tax burdens due to the tax proposals in the following illustrative baseline tax package: i) Hope Scholarship credit ($1,100 1998-1999, $1,200 in 2000, $1,500 in 2001 indexed beginning in 2002; no B minus rule; and no Federal grant offset) and 20% tuition credit ($4,000 in 1997 to 2000 and $7,500 thereafter); ii) Permanent extension of Section 127; iii) $500 child credit which is refundable against the employee share of payroll taxes ($250 in 1998, $300 1999 to 2000, and $500 in 2001, indexed beginning in 2002); iv) 18% maximum capital gains rate on non-publicly traded assets ($600,000 lifetime cap (joint), 3 year holding period); v) Allow deductibility on losses on sale of principal residence; vi) $500,000 exclusion of gains on the sale of principal residence (President's FY1998 Budget proposal); and vii) distressed areas initiative and other tax incentives in the President's FY1998 Budget (equitable tolling, Section 936, and FSC software).

(2) Family Economic Income (FEI) is a broad-based income concept. FEI is constructed by adding to AGI unreported and under-reported income; IRA and Keogh deductions; nontaxable transfer payments such as Social Security and AFDC; employer-provided fringe benefits; inside build-up on pensions, IRAs, Keoghs, and life insurance; tax-exempt interest; and imputed rent on owner-occupied housing. Capital gains are computed on an accrual basis, adjusted for inflation to the extent that reliable data allow. Inflationary losses of lenders are subtracted and gains of borrowers are added. There is also an adjustment for accelerated depreciation of noncorporate businesses. FEI is shown on a family rather than a tax-return basis. The economic incomes of all members of a family unit are added to arrive at the family's economic income used in the distributions.

(3) The change in Federal taxes is estimated at 1998 income levels but assuming fully phased in (2007) law and behavior. The effect of the capital gains proposal is based on the level of capital gains realizations under current law.

(4) The taxes included are individual and corporate income, payroll (Social Security and unemployment), and excises. Estate and gift taxes and customs duties are excluded. The individual income tax is assumed to be borne by payors, the corporate income tax by capital income generally, payroll taxes (employer and employee shares) by labor (wages and self-employment income), excises on purchases by individuals by the purchaser, and excises on purchases by business in proportion to total consumption expenditures. Federal taxes are estimated at 1998 income levels but assuming 2007 law and, therefore, exclude provisions that expire prior to the end of the Budget period and are adjusted for the effects of unindexed parameters.

(5) Families with negative incomes are excluded from the lowest quintile but included in the total line.

NOTE: Quintiles begin at FEI of: Second $16,950; Third $32,563; Fourth $54,758; Highest $93,222; Top 10% $127,373; Top 5% $170,103; Top 1% $408,551.

RR--1773

Ways and Means **Democrat's Package (1)**

(1998 Income Levels)

Family Economic Income Class (2) (000)	Number of Families (millions)	Average Tax Change ($)	Total Tax Change: Amount (3) ($M)	Total Tax Change: Percent Distribution (%)	Tax Change as a Percent of: Current Federal Taxes (4) (%)	Tax Change as a Percent of: Family Economic Income (%)
0 - 15	18.5	-67	-1238	3.4	-13.27	-0.79
15 - 30	21.8	-246	-5372	14.8	-10.70	-1.11
30 - 40	12.1	-304	-3659	10.1	-5.89	-0.87
40 - 50	9.7	-342	-3323	9.1	-4.55	-0.76
50 - 60	7.9	-408	-3208	8.8	-4.08	-0.74
60 - 75	9.4	-443	-4175	11.5	-3.48	-0.66
75 - 100	11.7	-388	-4537	12.5	-2.26	-0.45
100 - 200	15.6	-273	-4262	11.7	-0.98	-0.21
200 & over	3.9	-1629	-6377	17.5	-1.51	-0.35
Total (5)	111.3	-327	-36383	100.0	-2.50	-0.49

June 8, 1997

(1) This table distributes the estimated change in tax burdens due to the tax proposals in the following illustrative baseline tax package: i) Hope Scholarship credit ($1,100 1998-1999, $1,200 in 2000, $1,500 in 2001 indexed beginning in 2002; no B minus rule; and no Federal grant offset) and 20% tuition credit ($4,000 in 1997 to 2000 and $7,500 thereafter); ii) Permanent extension of Section 127; iii) $500 child credit which is refundable against the employee share of payroll taxes ($250 in 1998, $300 1999 to 2000, and $500 in 2001, indexed beginning in 2002); iv) 18% maximum capital gains rate on non-publicly traded assets ($600,000 lifetime cap (joint), 3 year holding period); v) Allow deductibility on losses on sale of principal residence; vi) $500,000 exclusion of gains on the sale of principal residence (President's FY1998 Budget proposal); and vii) distressed areas initiative and other tax incentives in the President's FY1998 Budget (equitable tolling, Section 936, and FSC software).

(2) Family Economic Income (FEI) is a broad-based income concept. FEI is constructed by adding to AGI unreported and under-reported income; IRA and Keogh deductions; nontaxable transfer payments such as Social Security and AFDC; employer-provided fringe benefits; inside build-up on pensions, IRAs, Keoghs, and life insurance; tax-exempt interest; and imputed rent on owner-occupied housing. Capital gains are computed on an accrual basis, adjusted for inflation to the extent that reliable data allow. Inflationary losses of lenders are subtracted and gains of borrowers are added. There is also an adjustment for accelerated depreciation of noncorporate businesses. FEI is shown on a family rather than a tax-return basis. The economic incomes of all members of a family unit are added to arrive at the family's economic income used in the distributions.

(3) The change in Federal taxes is estimated at 1998 income levels but assuming fully phased in (2007) law and behavior. The effect of the capital gains proposal is based on the level of capital gains realizations under current law.

(4) The taxes included are individual and corporate income, payroll (Social Security and unemployment), and excises. Estate and gift taxes and customs duties are excluded. The individual income tax is assumed to be borne by payors, the corporate income tax by capital income generally, payroll taxes (employer and employee shares) by labor (wages and self-employment income), excises on purchases by individuals by the purchaser, and excises on purchases by business in proportion to total consumption expenditures. Federal taxes are estimated at 199[illegible]ome levels but assuming 2007 law and, therefore, exclude provisions that expire prior to the end of the Budget period and are adjusted for the effects of unindexed parameters.

(5) Families with negative incomes are included in the total line but not shown separately.

AUCTION RESULTS

PUBLIC DEBT NEWS

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

TREASURY SECURITY AUCTION RESULTS
BUREAU OF THE PUBLIC DEBT - WASHINGTON DC

FOR IMMEDIATE RELEASE
June 19, 1997

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 52-WEEK BILLS

Term:	364-Day Bill
Issue Date:	June 26, 1997
Maturity Date:	June 25, 1998
CUSIP Number:	9127944W1

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate 1/	Price
Low	5.34 %	5.64 %	94.601
High	5.35 %	5.65 %	94.591
Average	5.35 %	5.65 %	94.591

Tenders at the high discount rate were allotted 94%.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 58,641,795	$ 10,341,469
Noncompetitive	976,790	976,790
PUBLIC SUBTOTAL	59,618,585	11,318,259
Federal Reserve	5,375,000	5,375,000
Foreign Official Inst.		
Refunded Maturing	1,692,500	1,692,500
Additional Amounts	1,026,500	1,026,500
TOTAL	$ 67,712,585	$ 19,412,259

1/ Equivalent coupon-issue yield.

RR-1774

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

RETARY OF THE TREASURY

June 18, 1997

The Honorable William V. Roth, Jr.
Chairman, Committee on Finance
United States Senate
Washington, DC 20510

Dear Bill:

I have reviewed the Chairman's Mark you released yesterday providing details of the tax portion of the bipartisan budget agreement. The President wants to implement the agreement into law by signing legislation that is fiscally responsible and provides a significant share of its benefits to middle income and working families.

While we are pleased that your mark moves in the direction of the principles underlying the budget agreement as compared to the Ways and Means Committee bill reported last week, we believe that certain changes -- indicated below -- should be made to correct our very serious concerns with the proposed bill.

In general, we believe that the benefits of the tax cut package should be distributed equitably throughout the income levels. Our preliminary analysis of your Mark shows 65.5 percent of the tax changes, when fully in place, going to the top 20 percent of taxpayers, 13.1 percent to the top 1 percent of taxpayers, and only 12.7 percent to the lowest three quintiles.

A number of the specific changes that we recommend below would provide a fair balance of the benefits of the tax cuts to working Americans, as well as mitigate the outyear escalation in the cost of the bill.

Children living in moderate and low-income families should benefit from the child credit we are creating in this bill. The Mark should be revised so that the child credit would be allowed before EITC is applied to ensure that middle and lower-income families benefit from this new credit. Otherwise, families who most need the help from a child credit would not be eligible. Millions of middle to lower-income families owe income tax before the EITC is applied, but not after. If the EITC is applied before the child credit, then almost all families with incomes under $20,000 per year, and many with incomes in the $20,000-30,000 per year range, would not benefit from this credit. The families who would be denied tax relief from the child credit under the Mark are hardworking Americans who pay Federal income tax and other taxes.

The education package falls nearly $15 billion short of the agreed goal of $35 billion in tax cuts for education that are consistent with the HOPE scholarship and tuition deduction proposals in the President's FY98 Budget. Furthermore, as compared to the President's proposals, the Mark directs more benefits toward upper-income families, while reducing the benefits to lower-income

families. We also believe it important to restore the full 100% credit for the first $1,500 for students in their first two years of college education. We are pleased that you have eliminated the Pell grant offset as a reduction of the maximum available HOPE credit. The President recently announced that he endorses such a change.

The Mark does not adequately deal with relief from the expenses of post-secondary education following the first two years. A tax incentive should be provided for such expenses in order to satisfy the terms of the budget agreement and meet the goals of continuing incentives for life-long education and provide relief from the squeeze on middle income parents educating their children.

Individual Retirement Accounts (IRAs) are currently available to married couples with less than $50,000 of income and all workers not covered by employer provided pension plans. The Mark contains a number of provisions to create new or enhanced individual retirement accounts or equivalent incentives -- increased income limits for existing regular IRAs, a new joint filer provision, a new backloaded "IRA Plus" account, an education IRA associated with the child credit for older children, new tax-free educational savings through prepaid tuition plans, and a new backloaded education IRA. The IRA Plus account, the education IRA and prepaid tuition plan modifications create IRA type tax benefits for savings contributions without regard to income limits. Since most workers already have an opportunity to contribute to tax deductible IRAs, the new provisions will largely become vehicles to provide tax breaks for savings that would otherwise occurred by upper income taxpayers. The new spousal income provision will permit well off families to benefit from tax-free accumulation.

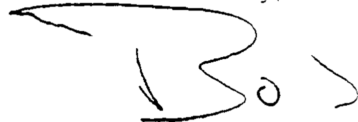
We recognize the value of IRAs (as indeed the President's own budget proposal demonstrated). However, we believe that the proliferation of IRA relief and other tax-favored savings incentives without income limitations in the mark will not lead to materially greater savings and violates the principles of balance and avoiding outyear explosion of costs that we articulated above.

We are pleased to note that you have chosen not to provide capital gains indexing, which we believe is unduly complex and would bestow inappropriately large benefits on high-income taxpayers, particularly in combination with a separate favorable rate schedule for capital gains. Our preference would be to limit capital gains relief to sales of residences and small business investment.

We also strongly support the remaining tax cut initiatives (including the urban and welfare-to-work initiatives, equitable tolling, Puerto Rico tax credit and the DC incentives) in the Administration's budget proposals to the extent not reflected in the Mark.

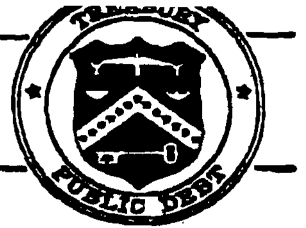
We look forward to ultimately fashioning a product that accommodates these concerns as well as those of both the majority and minority members of both houses of Congress.

Sincerely,



Robert E. Rubin

PUBLIC DEBT NEWS



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FOR IMMEDIATE RELEASE
June 23, 1997

CONTACT: Office of Financing
(202) 219-3350

CALCULATION OF INTEREST PAYMENTS FOR THE 10-YEAR INFLATION-INDEXED NOTE

The first semi-annual interest payment for the 3 3/8% 10-year inflation-indexed note (CUSIP No. 9128272M3) that matures on January 15, 2007, is payable on July 15, 1997. Interest payments for various par amounts of the notes are shown in the following table, based on the annual interest rate of 3 3/8% and the July 15, 1997, index ratio of 1.01085:

Par Amount	Inflation-Adjusted Principal	Adjusted Interest Payable
$1,000	$1,010.85	$17.06
$10,000	$10,108.50	$170.58
$100,000	$101,085.00	$1,705.81
$1,000,000	$1,010,850.00	$17,058.09
$10,000,000	$10,108,500.00	$170,580.94
$100,000,000	$101,085,000.00	$1,705,809.38

This information is available through the Treasury's Office of Public Affairs automated fax system by calling 202-622-2040 and requesting document number 1776. The information is also available on the Internet at Public Debt's home page: (http://www.publicdebt.treas.gov).

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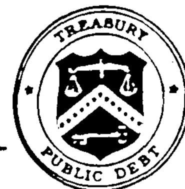
RR-1776

AUCTION RESULTS

PUBLIC DEBT NEWS



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TREASURY SECURITY AUCTION RESULTS
BUREAU OF THE PUBLIC DEBT - WASHINGTON DC

FOR IMMEDIATE RELEASE
June 23, 1997

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Term:	91-Day Bill
Issue Date:	June 26, 1997
Maturity Date:	September 25, 1997
CUSIP Number:	9127945N0

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate 1/	Price
Low	4.91 %	5.04 %	98.7[illegible]
High	4.95 %	5.08 %	98.749
Average	4.94 %	5.07 %	98.751

Tenders at the high discount rate were allotted 18%.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 32,616,025	$ 4,593,145
Noncompetitive	1,188,817	1,188,817
PUBLIC SUBTOTAL	33,804,842	5,781,962
Federal Reserve	3,379,235	3,379,235
Foreign Official Inst.		
Refunded Maturing	1,228,200	1,228,200
Additional Amounts	0	0
TOTAL	$ 38,412,277	$ 10,389,397

1/ Equivalent coupon-issue yield.

RR-1777

AUCTION RESULTS

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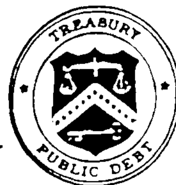

TREASURY SECURITY AUCTION RESULTS
BUREAU OF THE PUBLIC DEBT - WASHINGTON DC

FOR IMMEDIATE RELEASE
June 23, 1997

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Term:	183-Day Bill
Issue Date:	June 26, 1997
Maturity Date:	December 26, 1997
CUSIP Number:	9127945Y6

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate 1/	Price
Low	5.04 %	5.24 %	97.438
High	5.06 %	5.27 %	97.428
Average	5.05 %	5.25 %	97.433

Tenders at the high discount rate were allotted 21%.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 29,670,825	$ 2,973,995
Noncompetitive	1,046,408	1,046,408
PUBLIC SUBTOTAL	30,717,233	4,020,403
Federal Reserve	2,895,000	2,895,000
Foreign Official Inst.		
Refunded Maturing	3,000,000	3,000,000
Additional Amounts	1,548,400	1,548,400
TOTAL	$ 38,160,633	$ 11,463,803

1/ Equivalent coupon-issue yield.

RR-1778

INTERNATIONAL MONETARY FUND

1997 Article IV Consultation with the United States of America

Statement of the Fund Mission

June 19, 1997

1. The successful implementation of fiscal and monetary policy over the past four years has helped make the current economic expansion one of the longest in the period since World War II. Steady and important progress has been made in reducing the federal fiscal deficit since the current Administration took office in January 1993. In FY 1996, the deficit reached its lowest level in relation to GDP since FY 1974, and it is expected to fall further in FY 1997 to around ¾ percent of GDP. The recent agreement between the Administration and the Congress holds the promise that the objective of balancing the budget by FY 2002 will be achieved. At the same time, monetary policy has succeeded in maintaining inflation at a relatively low rate and in promoting the continued expansion of the economy. Flexibility in labor and product markets has helped to foster the creation of a substantial number of new jobs, bringing the unemployment rate down to its lowest level in decades and restraining inflationary pressures. The U.S. authorities should be highly commended for their policy efforts and the resulting outstanding performance of the U.S. economy.

2. At this juncture, a major immediate policy issue is to safeguard against the emergence of inflationary pressures and to prolong the life of the current economic expansion. While there is little evidence of pressures on prices at present, several elements in the current situation raise concerns. In the past year, the economy has shown considerable strength, and it appears more likely than not that this momentum will be carried forward. The economy is operating at a high level of resource utilization and may move to even higher levels in the near term. Moreover, the influence of factors that have restrained inflation (including slowly rising labor costs, appreciation of the U.S. dollar, and increased external competition with weak growth in other major countries) is likely to wane in the period ahead. Such concerns motivated the Federal Open Market Committee's preemptive increase in the target for the federal funds rate in March, and they point to the need for the monetary authorities to remain vigilant and to be prepared to raise interest rates further in coming months.

3. A forward-looking approach to monetary policy along the current lines, moving in small steps to change the stance of policy as circumstances warrant, is the most effective means of promoting a sustained expansion of the economy and keeping inflation in check, especially given the lags with which monetary policy affects output and prices. In the IMF staff's view, such an approach is likely to call for a moderate tightening of monetary conditions in the near future. This approach would not, however, preclude the economy

from reaching a new, higher level of resource utilization, if as some economists have argued structural changes have taken place that would allow the economy to operate at higher capacity utilization rates without triggering a rise in inflation.

4. More generally, the IMF staff agrees with the view expressed by the authorities that monetary policy needs to pay attention to cyclical conditions, while focusing on containing inflationary pressures during economic expansions in order to permit a gradual ratcheting down of inflation over the course of successive business cycles.

5. While much of the current policy debate in the United States focuses on short-run macroeconomic issues, particularly monetary policy, fiscal and trade policy issues are critically important for the longer-term growth of the economy. The recent agreement between the Administration and the Congress on a broad plan to balance the federal budget by FY 2002 is a welcome development. The agreement also seeks to maintain a balanced budget over the period to FY 2007, a very important consideration given the proposed measures to cut taxes. Prospects that these objectives will be met are good, provided the economy continues to perform well. The key task at hand is to define the specific measures to be taken within the framework of the balanced budget agreement and to move quickly to implement them.

6. While the agreement envisages significant savings in entitlement spending, it also relies on substantial further cuts in discretionary spending, mainly after FY 1999. Such expenditure cuts could prove difficult to implement, given the substantial compression of spending on discretionary programs that has taken place in recent years and the Administration's desire to raise spending in such priority areas as education and training. Reliance on the further compression of discretionary spending also raises concerns about whether the provision of basic government services, including the development and maintenance of public infrastructure, might be impaired; these concerns could be allayed to some extent by ongoing efforts to improve the efficiency of the public sector. These concerns also could be addressed by some reallocation of discretionary expenditures from defense spending toward areas of higher priority.

7. Although it would not be feasible to change the targets of the balanced budget agreement in a material way, the timing of spending cuts might be brought forward and tax cuts delayed somewhat within the agreement's framework, in order to achieve an earlier reduction in the budget deficit; this would strengthen the plan's credibility and leave the fiscal situation less vulnerable to adverse shocks. Moreover, a faster pace of deficit reduction would serve in the near term to reduce aggregate demand pressure, reduce the extent to which interest rates may need to be raised, and limit upward pressure on the exchange rate. In the longer term, a more substantial fiscal effort would raise national savings and help to reduce the external current account deficit and growing net U.S. international indebtedness.

8. In recent years, the Administration and the Congress have introduced targeted tax incentives to promote some of their policy objectives. Indeed, changes in the tax system over the past decade have in large part undone the simplification achieved in the Tax Reform Act of 1986. The balanced budget agreement illustrates this tendency with the inclusion of tax credits and deductions for educational expenses. Such incentives, which take the form of tax expenditures, narrow the tax base and make the income tax system increasingly less efficient and transparent. In the coming years, consideration should be given to simplifying the income tax system and to reducing distortions in order to enhance economic efficiency.

9. The rising share of the elderly in the U.S. population will place increasing strains on the Medicare and Social Security systems, with significant implications for fiscal policy over the longer term. Prompt efforts are required to reduce the financial burden that these programs will otherwise impose in order to avoid more draconian measures in the future. Such efforts also could contribute to the increase in national savings and reduction in the U.S. external imbalance alluded to above.

10. The balanced budget agreement addresses the near-term financial problems of the Medicare system, with the measures proposed ensuring the integrity of the system for at least the next ten years. However, the longer-term finances of Medicare remain a critical problem. The Administration's proposal to establish a bipartisan commission to develop a plan to address Medicare's longer-term finances should be acted on quickly. It would not be desirable to address the system's financial needs solely through increases in payroll taxes. To spread the burden more equitably, reform options to be considered might include combinations of increases in the Medicare payroll tax, further constraints on payments to health-care providers, increases in the costs paid by Medicare beneficiaries, and some increase in the age of eligibility. In addition, it has to be recognized that a once-and-for-all fix to Medicare's long-term finances may not be possible, owing to the difficulties in projecting the demand for health care and the costs of medical services.

11. The financial problems of the Social Security system are less immediate than those of Medicare, but it is no less important that a plan to shore up the system's longer-term financial position be implemented as soon as possible. The magnitude of the problems of Social Security and options for reform are well-known and have been studied extensively. Estimates suggest that measures equivalent to about a 2¼ percentage point increase in the payroll tax, if enacted promptly, would be sufficient to bring Social Security into actuarial balance. This could be accomplished through a combination of a small payroll tax increase and benefits cuts, including raising the retirement age, increasing the income taxation of benefits, and reducing cost-of-living adjustments to reflect the bias in the consumer price index. By taking such an approach, the burden of ensuring Social Security's financial soundness could be shared across generations.

12. The appreciation of the U.S. dollar over the past two years mainly reflects relative cyclical positions and policy developments in the major countries, together with the

confidence inspired by the strong U.S. economy. During this period, the dollar's strength has helped to moderate aggregate demand in the United States and limit inflationary pressures, while the high level of U.S. domestic demand and the appreciation of the dollar have contributed to a widening in the external current account deficit.

13. The persistence of large U.S. current account deficits and growing international indebtedness remains a matter of concern, and reducing these imbalances should be an important medium-term objective. By boosting national saving through continuing improvements in the fiscal position, the United States could avoid the crowding out of investment, which would potentially stem from a correction in the external deficit owing to exchange rate movements.

14. The United States continues to be a major force behind the advancement of trade liberalization in new sectors (for example, in telecommunications and intellectual property protection) and through regional and multilateral initiatives. Current efforts to expand international trade include initiatives to broaden membership in NAFTA, to establish a timetable for negotiations on a Free-Trade Area of the Americas, to advance trade liberalization in the Asian-Pacific region on a most-favored-nation basis, and to further the scope for liberalization under WTO auspices. U.S. support for regional market opening on terms supportive of the multilateral trading system and the goal of global free trade is to be commended. Extensive use by the United States of the WTO's trade dispute-settlement procedures, frequently in conjunction with Section 301 actions, would appear to reflect a shift in U.S. policy in favor of the resolution of disputes on a multilateral basis, and this is also a welcome development. At the same time, the IMF staff urges the authorities to be cautious in their use of unilateral actions and encourages the United States to exercise its leadership role by pushing forward more quickly with trade liberalization in traditionally sensitive sectors.

15. The communique of the 1996 Lyon G-7 summit underscored the importance of developing and transition economy countries giving priority to avoiding unproductive expenditures, in particular excessive military spending, and this is an issue that the IMF also has stressed in its work with these countries. To support such efforts, the IMF staff urges the United States, together with other major countries, to administer their policies on military sales to developing and transition economy countries in a way that avoids encouraging unproductive expenditures and heightening security tensions.

16. The United States has played an important leadership role in the area of official development assistance (ODA). However, U.S. ODA has declined as a share of GDP from its average in the early 1990s of 0.2 percent to around 0.1 percent in 1995 and 1996, and the Administration's FY 1998 Budget proposed only stabilizing such assistance at historically low levels. The IMF staff urges the authorities to make every effort to ensure that ODA does not fall further and to see that vigorous efforts are made to reverse its decline. U.S. leadership in efforts to raise ODA is important to help reverse a downward spiral in such assistance that appears to have developed on a world-wide basis, and threatens to offset a large part of the potential benefits from special programs such as the initiative for Africa.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR IMMEDIATE RELEASE
June 23, 1997

Contact: Michelle Smith
(202) 622-2960

TREASURY PRESS STATEMENT

Secretary Rubin today released the concluding statement of the staff of the International Monetary Fund following completion of its 1997 annual economic consultations with the United States. This statement represents IMF staff's independent judgement and assessment of U.S. economic performance and policies. In releasing it, the United States joins a number of countries that have chosen to do so in recent years, including several of our G-7 partners.

The IMF staff statement, or Statement of the Fund Mission, highlights the strength of the Clinton Administration's economic record, which has helped make the current expansion one of the longest and most dynamic on record. But it also observes that there is still work ahead in securing the longer term health of the economy.

We do not agree with every point in the statement. However, our release of it underscores our strong commitment to enhancing the transparency of IMF activities, so as to strengthen the institution's internal workings and build greater public support for the critical contribution the IMF makes to the successful functioning of the world economy.

Every year, IMF staff review economic performance and policies in the vast majority of its 181 member countries as part of its so-called "Article IV surveillance" consultations. Following the consultations, IMF staff generally provide a concluding statement to the country's senior economic officials. For several weeks in May and early June, IMF staff conducted the U.S. consultations in meetings with technical experts and economic policy officials. IMF Managing Director Camdessus and the IMF staff team met earlier this month with Chairman Greenspan and Secretary Rubin to wrap up the consultations. The IMF Executive Board will consider the IMF's findings next month. We expect that a summary of the Board's conclusions will be released.

-30-

RR-1780

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

CONTACT: Office of Financing
202/219-3350

TREASURY'S WEEKLY BILL OFFERING

The Treasury will auction two series of Treasury bills totaling approximately $15,000 million, to be issued July 3, 1997. This offering will result in a paydown for the Treasury of about $2,150 million, as the maturing publicly-held weekly bills are outstanding in the amount of $17,159 million.

In addition to the public holdings, Federal Reserve Banks for their own accounts hold $7,271 million of the maturing bills, 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 $4,394 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

HIGHLIGHTS OF TREASURY OFFERINGS OF WEEKLY BILLS
TO BE ISSUED JULY 3, 1997

June 24, 1997

Offering Amount	$7,500 million	$7,500 million
Description of Offering:		
Term and type of security	91-day bill	183-day bill
CUSIP number	912794 5P 5	912794 5Z 3
Auction date	June 30, 1997	June 30, 1997
Issue date	July 3, 1997	July 3, 1997
Maturity date	October 2, 1997	January 2, 1998
Original issue date	April 3, 1997	July 3, 1997
Currently outstanding	$10,037 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:

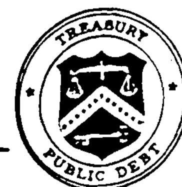
Noncompetitive tenders . . . . Prior to 12:00 noon Eastern Daylight Saving time on auction day

Competitive tenders . . . . Prior to 1:00 p.m. Eastern Daylight Saving 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

TREASURY SECURITY AUCTION RESULTS
BUREAU OF THE PUBLIC DEBT - WASHINGTON DC

FOR IMMEDIATE RELEASE
June 24, 1997

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 2-YEAR NOTES

Interest Rate:	6%	Issue Date:	June 30, 1997
Series:	AG-1999	Dated date:	June 30, 1997
CUSIP No:	9128272X9	Maturity Date:	June 30, 1999

High Yield: 6.027% Price: 99.950

All noncompetitive and successful competitive bidders were awarded securities at the high yield. All tenders at lower yields were accepted in full.

Tenders at the high yield were allotted 90%.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 37,040,074	$ 14,360,554
Noncompetitive	1,145,933	1,145,933
PUBLIC SUBTOTAL	38,186,007	15,506,487
Federal Reserve	644,435	644,435
Foreign Official Inst.	1,660,000	1,660,000
TOTAL	$ 40,490,442	$ 17,810,922

Median yield 6.010%: 50% of the amount of accepted competitive tenders was tendered at or below that rate.

Low yield 5.950%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR IMMEDIATE RELEASE
June 24, 1997

Contact: Hamilton Dix
(202) 622-2960

MEDIA ADVISORY

Treasury Secretary Robert E. Rubin will present the first Jackie Robinson gold and silver coins to Mrs. Rachel Robinson and the Jackie Robinson Foundation at 11 a.m. Thursday, June 26, at Hamilton Plaza, the South entrance to the Treasury Department, 1500 Pennsylvania Avenue, N.W.

Treasury will produce up to 100,000 gold and 200,000 silver Jackie Robinson commemorative coins in honor of the 50th anniversary of the breaking of the color barrier in major league baseball by Jackie Robinson.

A portion of the proceeds from the sale of the coins will go to the Jackie Robinson Foundation for education and youth leadership skills development and increasing the availability of scholarships for economically disadvantaged youths.

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DEPARTMENT OF THE TREASURY

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FOR IMMEDIATE RELEASE
Text as Prepared for Delivery
June 24, 1997

Secretary Robert E. Rubin Remarks to the James W. Rouse Forum on the American City June 24, 1997

Let me start by thanking Brookings, Fannie Mae and the Fannie Mae Foundation for hosting this event. All three organizations play key roles in helping the inner cities -- Brookings with its analysis of urban issues; the Foundation as a warehouse of information for homeowners and the largest grant maker in housing; and Fannie Mae as an important source of capital for urban development. For example, between 1994 and 2000, Fannie Mae will have invested or committed $75 million to CDFI -- money that goes to very good use in restoring opportunity to the inner cities.

I am honored to speak with you today at the first James Rouse Forum on American cities. Jim Rouse was a practical visionary who had a deep love for America's cities. At a time when many were suggesting that the age of great cities had come and gone, he devoted his life to reviving cities and he even came up with a name for it: urban renewal. Through the Enterprise Foundation, he worked hard to provide affordable housing for low-income people and make cities places where people from all segments of society would want to work, shop and live. As President Clinton said when he awarded Rouse the Presidential Medal of Freedom, this is a man who "helped to heal the torn out heart of American cities."

My experience in both the private sector and in government has reinforced for me two basic observations regarding the inner cities. First, we all have an enormous stake in dealing with these issues because our nation's long-term economic health for all of us will be greatly affected by the state of America's cities. Second, there is a great deal of activity taking place right now involving community groups, the private sector, and all levels of government that is showing signs of real progress. Our challenge is to identify what works and replicate it elsewhere so that the total effort has a scale commensurate with the issues.

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The progress that we have seen shows clearly that on the one hand there is a vital role for government and that on the other hand, no one sector -- government, communities and nonprofits, and business -- can do it alone. If we work together, we can make real progress. Today, I would like to discuss some of the steps I believe each of these crucial players can take to help meet the challenge of our inner cities.

I would like to start for a moment on the economy, because a strong economy is a requisite for dealing with these issues, although it is far from being enough: necessary, but not sufficient.

When President Clinton came to office, our nation's economy was in a morass, and, in turn, many parts of our cities were in dismal shape. Unemployment in the fifty largest cities was at 9 percent. Crime was at all time highs in many areas. There was a sense that the problems of the inner cities were insoluble.

Today, in large measure due to the deficit reduction program of 1993, and the economic growth that it generated, the deficit has fallen from close to five percent of GDP to an estimate of roughly one percent of GDP for 1997. That deficit reduction was key to reducing interest rates and increasing confidence, which, in turn, drove and sustained our new long lived recovery.

There are also some hopeful signs of renewal in America's cities. Unemployment in America's largest cities is down to 6.5 percent. Nearly three million people have left the welfare rolls in that time. Crime is down substantially.

Yesterday, the President released a report on the state of America's cities, the most important and comprehensive review of the condition of urban America in decades, that provides valuable evidence that contradicts the widespread perception that problems in the inner city are insoluble. But the report makes clear that there is still an enormous amount to do. Just as it has taken decades for many of the economic and social problems in the inner cities to develop, it will take time and a concerted effort to make the progress that needs to be made.

In order to bring new jobs and opportunity to our inner cities and their residents, we must take action to make our urban areas safer, to invest in the education and job readiness of people and to increase access to capital to help businesses grow. In each of these areas, partnerships among government, the business sector and communities can make a real difference.

Public safety is primarily the responsibility of government, and where government fails to provide it, businesses will be reluctant to go. From the federal to local levels, governments around the country have begun to take innovative steps to reduce crime, from community policing to sophisticated crime tracking. This Administration has done its part with the

President's Crime Bill, his plan to put 100,000 more police on the beat, and his strong and successful efforts to enact the Brady law and the assault weapons ban. Along these lines, Treasury's BATF has launched very promising pilot projects in 17 cities to track down gun dealers who push guns to kids.

In some communities, innovative partnerships between the business sector, nonprofit intermediaries, community groups, and local police have helped strengthen their collective ability to promote public safety. The Local Initiatives Support Corporation (LISC), a wonderful organization with a name that has the resonance of a section of the Internal Revenue Code, and the Enterprise Foundation have teamed up with local community groups and major corporations, such as Metropolitan Life, to pioneer these efforts. What we need to do is disseminate information about the "best practices" of these partnerships so that many more businesses and communities can get involved.

Businesses on their own can also play important roles in many ways. Through decisions about everything from site selection and lighting, to hiring from the neighborhood where they are located, to co-locating community police stations in their commercial space, to establishing hot lines, businesses can add to the safety of their neighborhood -- and that is good for the neighborhood and for their own bottom line.

The second area I mentioned is human capital -- investment in people. Through education and training we need to make sure all Americans have the tools to succeed in today's economy, and that the private sector has a well-trained work force from which it can hire.

For the federal government's part, we've expanded Head Start and rewarded work with the Earned Income Tax Credit. Funding for education and training are key priorities in the budget agreement, with new initiatives to increase literacy and tax credits and deduction for college and lifelong training. The President's welfare to work tax credit proposal will help businesses and job placement firms to develop innovative strategies to move low skilled people into jobs. The Administration's job training proposal would replace outmoded structures for job training with new funding for local strategies for job training and placement. But Congress needs to join us in these efforts and unless the business sector -- and local communities -- are also integrally involved, these efforts simply will not work.

In many areas, community based organizations, because of their extensive knowledge of their community, can play a most useful role: in screening job applicants, in helping them to become "job ready" with the social and work skills necessary to succeed, in developing long-term relationships and reputations with area businesses that permit them to act as brokers in linking residents to available jobs, and in providing the ongoing mentoring, intervention and support so critical to the objective that jobs, once attained, are retained.

Businesses can get involved in the school to work transition in partnership with local school districts. And can help develop vocational curricula in high schools and community

colleges and assist with local training efforts so that they are relevant to local economic needs. And businesses can do what McDonald's has done -- create "job ladders" for low skill employees, providing opportunities for promotion within their company, and developing relationships with other companies to enhance training and opportunities for their workers.

We have seen partnerships among government, business and communities work, from San Jose's CET to Newark's New Community Corporation. I was in Los Angeles last summer and met a woman named Juanita Tate, who was working with a community development corporation called Concerned Citizens for South Central Los Angeles. They took an environmentally contaminated area, known as a brownfields site, restored it and then set up a selection and training program for inner city residents to provide an employment base for prospective businesses coming to the area.

By creating this context, they have gotten commitments from developers and manufacturing businesses and when I was there they were well on their way to having a fully leased industrial park with businesses that have made economic decisions to locate in the inner city, instead of going elsewhere. To help efforts like these, we have proposed a new tax incentive, called the Brownfields tax credit, to clean up abandoned industrial properties in economically distressed areas.

That brings me to the third area I want to discuss, access to capital and business development. Despite the fact that financial markets in the United States are today the most innovative, the broadest, and deepest in the world, we still have a severe shortage of inner city financial institutions and inner city credit to create housing and jobs. 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."

That is why, at the federal level, we've improved the regulations under the Community Reinvestment Act to encourage mainstream financial institutions to lend to creditworthy borrowers throughout their community. In fact, home mortgage lending in low and moderate income areas is up over 25 percent since 1993. We also made permanent the low income housing tax credit, helping to create 60,000 affordable units per year.

We've launched the CDFI Fund to create a nationwide network of community development financial institutions, and we created a new Presidential awards program to highlight best practices in micro-enterprise development. These CDFIs are helping to create jobs, rebuild neighborhoods and restore hope in communities across the nation.

We need Congress' help in many of these efforts. On Wednesday, the VA/HUD Subcommittee in Congress will mark up its bill to fund the CDFI Fund, and I believe it is very important that the President's full request of $125 million for next year be granted. We have also introduced legislation for the brownfields tax incentive I just mentioned, new empowerment zones and a new tax credit for equity investments in CDFIs.

The Congressional leadership agreed in their letter accompanying the budget agreement, to work to include these tax incentives in the balanced budget legislation, but thus far the tax bills have not included these measures.

In a host of other ways the Administration is working with communities on job creation in inner cities. Treasury and Commerce are working on an innovative project to develop a secondary market for community development loans. Treasury is working on increasing access to financial services for millions of the unbanked. The President has proposed a plan for revitalizing our Nation's Capital, by restructuring the federal - D.C. relationship, improving services, and proposing a new economic development corporation and tax incentives for the District. And we've created a new Office of Community Development Policy at Treasury to bring added focus and energy to coming up with creative approaches to these issues.

In job creation, too, I would like to focus for a moment on the important role community based organizations play. These organizations can enhance public safety, impart to businesses important local knowledge of markets, and sites, help screen and prepare a potential workforce, and help recruit businesses to locate in this area. Many community based organizations have themselves been growing small businesses for years.

Let me conclude by returning to where I began. I strongly believe, and more importantly the President believes, that fostering growth in the inner cities is central to the future economy and sound well being of our nation and therefore of all of us.

Simply put, this country will never reach its full economic potential until, as one newspaper said of Jim Rouse in his 78th year, we chose "to see in our cities what most Americans don't -- human potential that, given the right resources, can be uplifted."

We must all work together to achieve that objective. We at Treasury need to continue to build on our efforts to expand access to private sector capital and to promote inner city job growth. Business needs to look at involvement in inner cities, not because it is charity, but because it makes good business sense as a a source of new workers and new markets. Community organizations can play an enormous role, as the people closest to the problems, and the many challenges and opportunities of the inner cities.

And government at all levels have a vital and integral role. Working together, we can over time foster economic and social health in our inner cities, a social and economic health that will benefit all Americans. Thank you very much.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED UNTIL 9:30 A.M. EDT
Text as Prepared for Delivery
June 26, 1997

U.S. TREASURER MARY ELLEN WITHROW
HOUSE BANKING AND FINANCIAL SERVICES SUBCOMMITTEE
ON DOMESTIC AND INTERNATIONAL MONETARY POLICY

I am happy to be here today with the Assistant Secretary for Management and Chief Financial Officer (CFO) and the Directors of the Bureau of Engraving and Printing (BEP) and the U.S. Mint to talk about the production of our nation's money and the Department's role in directing and overseeing those efforts.

In my capacity as Treasurer of the United States, I am responsible for the oversight of the BEP and the Mint. As you know, Mr. Chairman, the BEP and the Mint manufacture products that are used by people worldwide. Most of us carry some amount of coin and currency with us every day. Two thirds of our currency circulates outside of the United States. The stamps that the BEP produces are used by citizens daily. And the Mint's commemorative products are marketed worldwide.

For that reason, Treasury takes very seriously its role in producing the nation's coinage and currency.

As Treasurer, I observe the effectiveness of our policies and their effects on the public and commerce through my daily interactions. In the formulation of policy, my office works closely with the Mint, BEP, the Office of the Assistant Secretary for Management and CFO, other Departmental offices, and the Federal Reserve Banks.

As part of my oversight role, I meet with the Directors on a weekly basis and we talk about their programs and the problems that they encounter. I interact with the management and staff of the BEP and the Mint during site visits, programs, meetings and other events. I provide guidance on policy decisions, such as currency redesign, and the implementation of those

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policies. These interactions allow me to advise the Secretary and Deputy Secretary about the challenges and issues involved with the production of money.

I work in conjunction with the Office of the Assistant Secretary for Management and CFO, which also promotes the efficiency and effectiveness of coinage and currency production. As part of its department-wide mission to provide oversight and assistance, I work with Management in the areas of: strategic planning, organizational improvement, budgeting, accounting and internal controls, personnel policy, security, property management, and information systems for the Mint and BEP.

My oversight role also requires me to work closely with the Office of Domestic Finance to maintain the stability of our currency and ensure our ability to support the nation's system of commerce.

Additionally, I work with Treasury policy offices on a number of joint initiatives, such as the Advanced Counterfeit Deterrence (ACD) Committee and the E-Money Task Force.

To produce coins and currency in great quantity and to secure these products until they are delivered is a very complicated task. The employees of the BEP and the Mint do a very good job. The customer feedback we receive is quite encouraging. But there is always room for improvement and there is always a benefit to taking time to reexamine and reflect on structures, systems and overall policies. The oversight of this committee is an important part of that process and we welcome this opportunity to respond to this committee's questions on a wide range of BEP and Mint issues. We know the importance of reexamining and reinventing.

I am proud of the work of Mint and BEP. Their missions are challenging, and they are taking a forward-looking approach. BEP and the Mint have stepped up to the plate to pilot reinvention and GPRA initiatives, and have fared well in these efforts. Their Directors are aggressive in their strategic planning initiatives and want to make sure they have the tools and resources available to most efficiently meet the demands of their customers. The implementation of the Public Enterprise Fund and the waiver of procurement rules and regulations in 1996 for the Mint have allowed for more streamlined, business-like investments. In 1996, BEP introduced several new products, including the redesigned $100 note--to provide additional counterfeit deterrence, and pressure sensitive postage stamps--to meet customer demand.

Mr. Chairman, we believe that maintaining the confidence of the general public is very important to our success. That is why we factor in the public's attitudes and concerns when we are considering changes to our programs or products. We have observed that if there is a compelling reason or need for a change in the money, and that reason is well articulated, then the public is more likely to accept the change. For example, the objective of our currency redesign initiative is to make counterfeiting more difficult by staying ahead of changes in reproduction and computer technology. A recent article in the Washington Post cites the success of the new

$100 bill, which is credited, in part, with the sharp decline in the number of counterfeit $100 bills.

Additionally, we are providing a feature on the redesigned $50 note to make it easier to use for the visually impaired. We were pleased with the worldwide acceptance of the redesigned $100 note, and are confident that the $50 note will meet with similar success when it is released in the fall of this year.

Conclusion

The Department, working together with BEP and the Mint, has undertaken many initiatives to make the management of the production of money more efficient and effective. We continue to stay abreast of new developments--such as electronic money, and reproduction and computer technology--and the challenges and opportunities they represent.

However, Treasury needs to move forward cautiously, making sure to weigh cost savings measures with their impact on the public--our customers. As I stated in the beginning, our products are used worldwide, and consequently, any changes to those products, or their availability can have a profound impact and implications for our citizens, as well as for others around the world.

As Treasurer, I am particularly qualified to fulfill my oversight role. I am the first Treasurer in our nation's history to have served as Treasurer at all three levels of government--Local, State and Federal. In November 1976, I was elected County Treasurer and served for six years. In November 1982, I was elected to the Office of State Treasurer for the state of Ohio. I served in that capacity for twelve years. Finally, in March of 1994, I was honored to be appointed as Treasurer of the United States. That means that for a total of more than 21 years I have had responsibility for taking care of the public's money.

I would like to thank the Subcommittee and you, Mr. Chairman, for this opportunity to appear before you today. Now I would be pleased to respond to any questions you may have.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED UNTIL 9:30 A.M. EDT
Text as Prepared for Delivery
June 26, 1997

TREASURY ASSISTANT SECRETARY (MANAGEMENT) AND CHIEF FINANCIAL OFFICER GEORGE MUÑOZ HOUSE BANKING AND FINANCIAL SERVICES SUBCOMMITTEE ON DOMESTIC AND INTERNATIONAL MONETARY POLICY

I am pleased to be here today, along with the Treasurer and the Directors of the Bureau of Engraving and Printing (BEP) and the U.S. Mint to talk about the production of our nation's money and Treasury's role in directing and overseeing those efforts.

The production, integrity, use and security of our money is central to Treasury's mission and responsibilities. Because Treasury collects most of the revenues for the federal government, and because it is responsible for paying most of the obligations of the federal government, it is always looking for ways to reduce the cost of these transactions. Yet, a substantial portion of private sector commerce still requires the use of currency and coins, especially because of their integrity, acceptability, and ease of use. For that reason, various Treasury policy officials and offices take an interest in, and are responsible for, advising the Secretary on matters having a direct or indirect impact on our use of money.

Roles and Responsibilities

With respect to cost and production of our currency and coins, the Secretary of the Treasury has delegated responsibilities of oversight of the BEP and the Mint to my office along with the Office of the Treasurer. The Advanced Counterfeit Deterrence Steering Committee (chaired by the Under Secretary for Domestic Finance) is taking the lead on the currency redesign project.

Matters concerning the production and mix of currency and coinage are also under the purview of other central Treasury offices, including Economic Policy, Domestic Finance, Office

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of Enforcement, and the Treasury's Electronic-Money Task Force headed by the Comptroller of the Currency. Because of the variety of issues associated with our coins and currency (such as production, integrity, security, public acceptance and usage, impact on commerce), Secretary Rubin relies on various economic and enforcement offices for advice on the use and alternatives to our coins and currency.

The Bureau directors have already discussed with you the details of their bureaus' operations. As Treasury's Assistant Secretary for Management and Chief Financial Officer, I would like to focus on the leadership and policy making responsibilities of my office, as well as the other central Treasury offices. The following are some of the oversight activities conducted by my office with respect to the BEP and the Mint:

1. Budget Review. My office is responsible for reviewing bureau budgets to ensure they are in line with the President's priorities, and submitting those budgets to the appropriate oversight bodies. We have taken the lead in working with the bureaus to ensure the budgets are presented in terms of performance goals and measures, and include standard financial statements and schedules that are unique to manufacturing.

2. CFO Activities. As Treasury CFO, I meet monthly with bureau CFOs, and am responsible for the integrity of the bureaus' financial statements. I am proud to say that both the Mint and BEP have clean audit opinions. The Mint has made major strides in ridding itself of its financial reporting problems.

3. Overall Management. My office also has the responsibility of addressing personnel, procurement, and security matters dealing with the Mint and BEP, as well as other Treasury bureaus. For example.

   --The Departmental Task Force on Physical Security and Internal Controls at BEP was directed by my office. That Task Force did an extensive security review of BEP and issued its report. Within 2 years of the reports' issuance, BEP has implemented 92% of the high risk recommendations and 90% of the low risk recommendations. BEP is completing the actions in accordance with their schedule of full implementation by end of calendar year 1999.

   --Another example is the guidance and oversight of the Year 2000 computer conversion project.

   --And finally, my office has worked together with the Mint and Congress, to establish the Mint's Public Enterprise Fund, provide a waiver of procurement rules and regulations, and the eliminate 9 presidential appointee positions. These initiatives have assisted the Mint to streamline its operations and provide for more business-like investments.

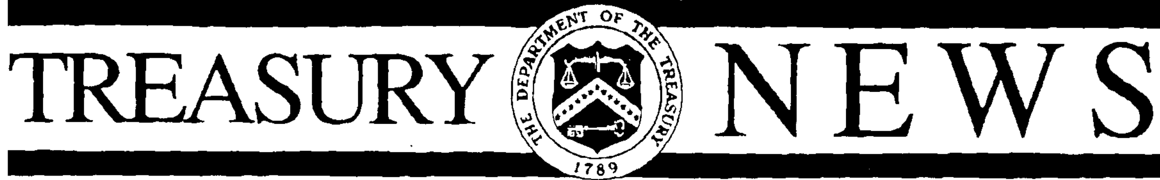
4. Assist the Treasurer's Office. My office provides important support to the Treasurer in

the carrying out of her duties. Rather than duplicate efforts, the Treasurer is able to call upon Departmental expertise to assist in her oversight role. For example, the Treasurer reviewed the performance measures of the Mint and BEP as well as their efforts on the Year 2000 computer conversion with our management staff.

Conclusion

The Department, working together with BEP and the Mint, has undertaken many initiatives to make the management of the production of coin and currency more efficient and effective.

I would like to thank the Subcommittee and you, Mr. Chairman, for this opportunity to appear before you today. Now I would be pleased to respond to any questions you may have.



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FOR IMMEDIATE RELEASE
June 25, 1997

Contact: Hamilton Dix
(202) 622-2960

MEDIA ADVISORY

Treasury Secretary Robert E. Rubin and Deputy Secretary Lawrence H. Summers will hold a press conference to discuss proposals to reform the IRS at 1:30 pm today in the Secretary's large conference room of the Treasury Department, 1500 Pennsylvania Avenue, N.W. Cameras may set up at 1 p.m.

The National Commission on Restructuring the IRS today released its report proposing a variety of changes for IRS governance. The Secretary and the Deputy Secretary will discuss the Treasury plan for reforming IRS as well as the Commission's proposals and they will respond to questions

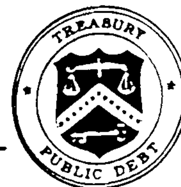
Media without Treasury, White House, State, Defense or Congressional credentials planning to attend should contact the Office of Public Affairs at (202) 622-2960, with the following information: name, social security number and date of birth, by 1 p.m. today. This information may be faxed to (202) 622-1999.

-30-

RR-1789

AUCTION RESULTS

PUBLIC DEBT NEWS



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

TREASURY SECURITY AUCTION RESULTS
BUREAU OF THE PUBLIC DEBT - WASHINGTON DC

FOR IMMEDIATE RELEASE
June 25, 1997

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 5-YEAR NOTES

Interest Rate:	6 1/4%	Issue Date:	June 30, 1997
Series:	H-2002	Dated date:	June 30, 1997
CUSIP No:	9128272Y7	Maturity Date:	June 30, 2002

High Yield: 6.298% Price: 99.797

All noncompetitive and successful competitive bidders were awarded securities at the high yield. All tenders at lower yields were accepted in full.

Tenders at the high yield were allotted 87%.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 36,111,395	$ 10,951,115
Noncompetitive	549,150	549,150
PUBLIC SUBTOTAL	36,660,545	11,500,265
Federal Reserve	478,000	478,000
Foreign Official Inst.	1,060,000	1,060,000
TOTAL	$ 38,198,545	$ 13,038,265

Median yield 6.290%: 50% of the amount of accepted competitive tenders was tendered at or below that rate.

Low yield 6.250%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

RR-1790

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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Remarks Prepared for Delivery
EMBARGOED UNTIL 11:00 A.M.
June 26, 1997

Contact: Hamilton Dix
(202) 622-2960

TREASURY SECRETARY ROBERT RUBIN
JACKIE ROBINSON COIN EVENT

I want to welcome all of you to the Treasury Department for this special occasion. Let me extend a special greeting to the members of Congress who are with us today, as well as Mrs. Robinson and Betty Adams of the Jackie Robinson Foundation. I would also like to recognize Reginald Livingston, the recipient of a scholarship from the Foundation, as well as Jim Peed and Al Maletsky, two of the engravers who designed the coins.

Fifty years ago, America took a great stride forward in addressing our troubled history of race relations when Jackie Robinson broke the color barrier and joined the Brooklyn Dodgers. Jackie Robinson is a true American hero, not only to African Americans, but to all Americans, as a symbol of courage overcoming adversity, of talent overcoming prejudice, of determination overcoming hate --of one individual helping to make America live up to its promise of equal opportunity for all. After his career ended, Jackie Robinson continued to be a powerful voice for ending racial barriers so that each American can perform to the best of his or her ability, and be judged solely by those abilities. President Clinton recently announced a major initiative to heal divisions between the races. We can all look at Jackie Robinson as inspiration as we move forward on this critically important effort.

Let's not forget, Jackie Robinson was also one heckuva good ballplayer. He was one of the most dynamic, talented and exciting players to ever play the game. When Jackie Robinson was at bat you knew --and the opposing team knew --that something exciting was going to happen.

I worry that far too many Americans are not aware of Jackie Robinson's accomplishments --both on the field and off. To Americans of all races who were not alive at the time --and who admire such African American sports heroes as Michael Jordan, Ken Griffey, or Tiger Woods --it may seem incomprehensible that for much of our history African Americans could not play with white Americans. But that indeed was the case. Because of Jackie Robinson, it no longer is.

RR-1791

For press releases, speeches, public schedules and official biographies, call our 24-hour fax line at (202) 622-2040

I am pleased and honored that the Treasury Department joins the celebrations surrounding the fifty year anniversary of Jackie Robinson entering the major leagues with the release of these commemorative coins honoring Jackie Robinson and his accomplishments. The gold coin shows the face of Jackie Robinson in his later years on one side, and, on the other side, the years of his birth and death with the words "Legacy of Courage" set on a baseball. The silver coin shows a view of Jackie Robinson sliding into home during one of his famous steals of home. The reverse side contains a view of the 50th Anniversary logo of the Jackie Robinson Foundation, which has been worn as a patch by all major league baseball players this season.

The release of these commemorative coins will serve two main purposes. First, a portion of the proceeds received from the sale of these coins will go to the Jackie Robinson Foundation, helping them provide more scholarships to minority students. Second, we hope the coins will help increase awareness about Jackie Robinson's accomplishments so that the hope and courage that he represents will inspire a new generation.

First, I will present a set of the coins to Leonard Coleman, Chairman of the Board of the Jackie Robinson Foundation, and Betty Adams, President of the Jackie Robinson Foundation. Now, I will present the coins to Mrs. Robinson and ask her to say a few words.

-30-

Office of the Attorney General
Washington, D.C. 20530

June 27, 1997

Dear Law Enforcement Colleague:

Earlier today, the Supreme Court ruled that part of the Brady Handgun Control Act is unconstitutional. Although we are disappointed in the Court's decision, we must all abide by it.

All of you should understand that the Supreme Court's decision did not "strike down the Brady Act," "declare it unconstitutional" or any one of a number of broad based and inaccurate statements that you may hear. Rather, the Court simply stated that the federal government cannot require that state, county and municipal officials conduct the checks provided for under the law until November 1998, at which time the National Instacheck System (NICS) will become effective.

We know that the vast majority of concerned and effective law enforcement officers in this country support and conduct background checks under the Brady Act, not because they are required, but because it is good law enforcement. Therefore, this decision will likely have little impact on law enforcement. Those who wish to purchase a handgun from a licensed federal firearms dealer (FFL) must still complete a background check form under the Brady Act, and the FFL must forward that form to the chief law enforcement officer (CLEO). As before, if, after five days, the CLEO has not advised the FFL not to transfer the handgun, the FFL may sell the handgun to the purchaser.

The sole change occasioned by the Supreme Court decision is that the CLEO is no longer required by federal law to run the Brady background check. We expect and hope that the vast majority of law enforcement agencies in America will continue to run these checks voluntarily because they are saving lives, keeping guns out of the hands of criminals and generally in the best interest of law enforcement. We urge you to continue these checks.

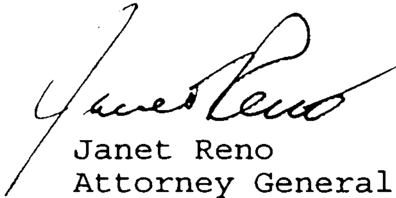
Since the Brady Act went into effect, over 250,000 felons, fugitives and other prohibited persons have been denied handguns. We are making great strides in reducing violent crime in America and our failure to keep up these Brady background checks will seriously undermine all of our efforts in this regard.

RR-1792

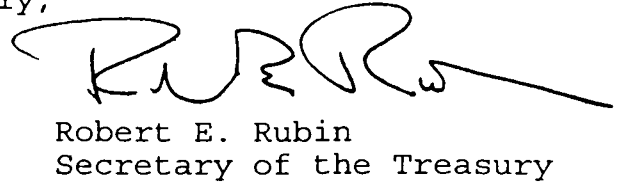
We recognize that some CLEOs may still use the Court's decision as an excuse not to conduct Brady background checks. That would be most unfortunate for the people of this country. It is just common sense that we all keep doing whatever we can to keep guns from criminals.

Please do not let America down. Please join responsible law enforcement in continuing to serve and protect the public.

Sincerely,



Janet Reno
Attorney General



Robert E. Rubin
Secretary of the Treasury

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

June 25, 1997

The Honorable Trent Lott
Majority Leader
United States Senate
Washington, D.C. 20510

Dear Trent:

The Administration is pleased that, as compared to the Ways and Means Committee Bill, the tax portion of the Revenue Reconciliation Act of 1997, S.949, moves in the direction of the principles underlying the bipartisan budget agreement. The Administration, however, has a number of serious concerns that need to be addressed.

An essential element of the understandings reached at the time of the budget agreement was that tax cuts would avoid explosion of outyear costs and would be targeted to provide significant relief for middle- and lower-income taxpayers. The agreement called for roughly $35 billion over 5 years of education incentives along the lines of the President's HOPE scholarship credit and tuition deduction proposals, as necessary to provide relief for middle- and lower-income families paying higher education expenses.

We believe that the benefits of the tax cut package should be distributed equitably. The combination of the various IRA provisions and the capital gains provisions in S.949 result in a tax bill that disproportionately benefits high-income taxpayers. Our preliminary analysis of S.949 shows 65.0 percent of the tax changes (when fully in place) go to the top 20 percent of taxpayers, 12.5 percent go to the top one percent, and only 13.3 percent go to the lowest 60 percent of the population. I have enclosed a distribution table showing the effect of the tax reductions in S.949. A number of the changes that we recommend below would improve distributional equity, as well as moderate the ballooning of out-year revenue losses. We strongly believe that the following problems must be addressed:

The education package is insufficient and unfair to lower-income students. Because of the absence of a generally available tuition deduction, total education spending on initiatives consistent with the President's FY 98 Budget is only $20.4 Billion, well short of the agreed goal of $35 billion. Because there would be no general tuition deduction, the proposal offers low-income students and students who work to pay tuition little or no help beyond the first two years of higher education. Overall, the package directs more benefits toward upper-income families while reducing the benefits to lower-income families, particularly those who rely on their earnings to finance their education.

- The HOPE credit, while an improvement over the House provision, would be cut by 25% to 50% of tuition expenses in many cases, significantly reducing the value of education benefits for millions of students attending low-cost institutions.

- Tax-free savings offered through new education IRAs and the opportunities for tax-deferred saving through prepaid tuition plans are overly generous to upper-income families. No income limits are imposed. High-income taxpayers will have the incentive to use these plans to shift existing savings into investment vehicles that are never taxed, even if they never intend to use the earnings for education expenses. Also, the education IRA and prepaid tuition plan provisions in the Bill will provide an opportunity for high-income taxpayers to avoid estate and gift taxes on substantial transfers.

The effect of altering the stacking order of the Earned Income Tax Credit (EITC) and child credit is unfair to low income working families. The Bill would stack the $500 child credit after one half of the EITC. While this is an improvement as compared to the Ways and Means Bill, on average it provides significantly less than half the benefit to low-income working families relative to stacking the credit before the EITC. If this approach were adopted, families would not be entitled to any child credit unless they had income tax liability after claiming half of the EITC, adversely affecting millions of low-income families and their children. A married couple with two children and $23,000 of income, for example, would receive no tax relief from the child credit under this proposal. If the child credit was stacked before the EITC, this family would get $675. This family pays $1760 in payroll taxes, their employers pay $1760 in payroll taxes and they pay $675 in income taxes. Working families who pay taxes deserve to receive the benefit of the child credit. The Administration believes strongly that the child credit should be treated like other nonrefundable credits and stacked before the EITC. Both the 1995 Balanced Budget Act tax proposals passed by Congress, and the legislation you introduced this year (S.2) stacked the child credit before the EITC.

The backloaded IRA Plus accounts and other IRA-type proposals are not sufficiently targeted. The proposal allows contributions to back-loaded IRAs without any income limits. We are concerned that it could result in high-income taxpayers shifting existing savings into tax-preferred investment vehicles, rather than creating new savings. The IRA proposals, in total, have explosive outyear costs, rising from a cost of $3.3 billion over the first five years to $24.1 billion over 10 years.

The Bill contains other provisions that raise serious concerns. For instance, the Administration opposes the provision transferring 4.3 cents per gallon in fuel taxes currently dedicated to deficit reduction from the General Fund to transportation trust funds. While the transfer provision in itself has no revenue or spending effect, transferring the revenue feeds efforts to move the trust funds off-budget and creates pressure to increase ground transportation spending to levels significantly higher than anticipated in the Bipartisan Budget Agreement.

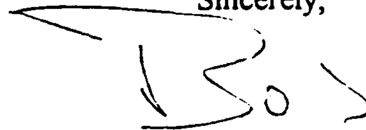
The Nation's mayors and urban and rural communities have clearly told us that the President's Brownfields initiative is vitally important to encouraging businesses to clean up and revitalize thousands of contaminated sites around the country. The Bill should include this proposal. Furthermore, the Bill should provide for additional Empowerment Zones and Enterprise Communities to stimulate private investment and economic activity in depressed urban and rural communities.

The Bill omits or modifies a number of important initiatives that were included in the President's FY98 Budget. We oppose the changes to the Work Opportunity Tax Credit (WOTC) that allow employers to claim the WOTC credit for hiring workers for a very short period of time. This change is particularly troubling when no welfare-to-work provision is provided to encourage the hiring of long-term welfare recipients. No provision is included to stimulate investments in Community Development Financial Institutions to revitalize distressed neighborhoods around the country. No economic incentives are provided for new investment in Puerto Rico. Finally, no provision is included for equitable tolling, which protects a taxpayer's rights when he or she is incapacitated, or for restructuring our Nation's affordable housing portfolio.

The Bill is heavily laden with special-interest provisions. We believe that it is inappropriate to use this reconciliation Bill as a catch-all for new tax breaks for special interests.

For all of these reasons, significant modifications need to be made. Nevertheless, we are eager to work with the Congress to fashion, and enable the President to sign, tax-cut legislation that addresses these problems, that is faithful to the bipartisan budget agreement, and that is fair to all Americans.

Sincerely,



Robert E. Rubin

Very Preliminary

Major Tax Cut Provisions in the Bill Passed by the Senate Finance Committee (1)

(1998 Income Levels)

Family Economic Income Quintile (2)	Number of Families (millions)	Average Tax Change ($)	Total Tax Change: Amount (3) ($M)	Total Tax Change: Percent Distribution (%)	Tax Change as a Percent of: Current Federal Taxes (4) (%)	Tax Change as a Percent of: Family Economic Income (%)
Lowest (5)	21.6	-12	-267	0.4	-2.13	-0.13
Second	22.2	-77	-1713	2.7	-2.78	-0.31
Third	22.3	-292	-6506	10.2	-4.13	-0.68
Fourth	22.3	-615	-13679	21.3	-4.43	-0.85
Highest	22.3	-1871	-41659	65.0	-4.58	-1.01
Total (5)	111.3	-576	-64078	100.0	-4.41	-0.87
Top 10%	11.1	-2433	-27097	42.3	-4.09	-0.93
Top 5%	5.6	-3246	-18099	28.2	-3.70	-0.86
Top 1%	1.1	-7160	-8033	12.5	-3.09	-0.76

Department of the Treasury
Office of Tax Analysis

June 25, 1997

(1) This table distributes the estimated change in tax burdens due to the major tax provision in the bill passed by the Senate Finance Committee which include the following: i) a child credit; ii) a modified HOPE scholarship tax credit; iii) a deduction for student loan interest; iii) a deduction for education expenses paid through State-sponsored prepaid tuition programs; iv) permanent extension of Section 127; v) education investment accounts and private prepaid tuition programs; vi) expanded front-loaded and new back-loaded IRAs; vii) Capital gains provisions (lower individual rates, extension of S. 1202, and $500,000 exclusion for gains on a principal residence); viii) changes in the individual AMT; and ix) a modification of the treatment of company-owned life insurance.

(2) Family Economic Income (FEI) is a broad-based income concept. FEI is constructed by adding to AGI unreported and under-reported income; IRA and Keogh deductions; nontaxable transfer payments such as Social Security and AFDC; employer-provided fringe benefits; inside build-up on pensions, IRAs, Keoghs, and life insurance; tax-exempt interest; and imputed rent on owner-occupied housing. Capital gains are computed on an accrual basis, adjusted for inflation to the extent that reliable data allow. Inflationary losses of lenders are subtracted and gains of borrowers are added. There is also an adjustment for accelerated depreciation of noncorporate businesses. FEI is shown on a family rather than a tax-return basis. The economic incomes of all members of a family unit are added to arrive at the family's economic income used in the distributions.

(3) The change in Federal taxes is estimated at 1998 income levels but assuming fully phased in (2007) law and behavior. For the IRA provisions and education accounts, the change is measured as the present value of the tax savings from one year's contributions. The effect of the capital gains provision is based on the level of capital gains realizations under current law.

(4) The taxes included are individual and corporate income, payroll (Social Security and unemployment), and excises. Estate and gift taxes and customs duties are excluded. The individual income tax is assumed to be borne by payors, the corporate income tax by capital income generally, payroll taxes (employer and employee shares) by labor (wages and self-employment income), excises on purchases by individuals by the purchaser, and excises on purchases by business in proportion to total consumption expenditures. Federal taxes are estimated at 1998 income levels but assuming 2007 law and, therefore, exclude provisions that expire prior to the end of the Budget period and are adjusted for the effects of unindexed parameters.

(5) Families with negative incomes are excluded from the lowest quintile but included in the total line.

NOTE: Quintiles begin at FEI of: Second $16,950; Third $32,563; Fourth $54,758; Highest $93,222; Top 10% $127,373; Top 5% $170,103; Top 1% $408,551.

Very Preliminary

Major Tax Cut Provisions in the Bill Passed by the Senate Finance Committee (1)

(1998 Income Levels)

Family Economic Income Class (2) (000)	Number of Families (millions)	Average Tax Change ($)	Total Tax Change: Amount (3) ($M)	Total Tax Change: Percent Distribution (%)	Tax Change as a Percent of: Current Federal Taxes (4) (%)	Tax Change as a Percent of: Family Economic Income (%)
0 - 15	18.5	-11	-197	0.3	-2.11	-0.13
15 - 30	21.8	-62	-1347	2.1	-2.68	-0.28
30 - 40	12.1	-170	-2046	3.2	-3.29	-0.49
40 - 50	9.7	-328	-3189	5.0	-4.36	-0.73
50 - 60	7.9	-448	-3527	5.5	-4.49	-0.82
60 - 75	9.4	-528	-4971	7.8	-4.14	-0.79
75 - 100	11.7	-847	-9911	15.5	-4.94	-0.98
100 - 200	15.6	-1518	-23677	37.0	-5.46	-1.15
200 & ove	3.9	-3822	-14961	23.3	-3.53	-0.83
Total (5)	111.3	-576	-64078	100.0	-4.41	-0.87

Department of the Treasury
Office of Tax Analysis

June 25, 1997

(1) This table distributes the estimated change in tax burdens due to the major tax provision in the bill passed by the Senate Finance Committee which include the following: i) a child credit; ii) a modified HOPE scholarship tax credit; iii) a deduction for student loan interest; iii) a deduction for education expenses paid through State-sponsored prepaid tuition programs; iv) permanent extension of Section 127; v) education investment accounts and private prepaid tuition programs; vi) expanded front-loaded and new back-loaded IRAs; vii) Capital gains provisions (lower individual rates, extension of S. 1202, and $500,000 exclusion for gains on a principal residence); viii) changes in the individual AMT; and ix) a modification of the treatment of company-owned life insurance.

(2) Family Economic Income (FEI) is a broad-based income concept. FEI is constructed by adding to AGI unreported and under-reported income; IRA and Keogh deductions; nontaxable transfer payments such as Social Security and AFDC; employer-provided fringe benefits; inside build-up on pensions, IRAs, Keoghs, and life insurance; tax-exempt interest; and imputed rent on owner-occupied housing. Capital gains are computed on an accrual basis, adjusted for inflation to the extent that reliable data allow. Inflationary losses of lenders are subtracted and gains of borrowers are added. There is also an adjustment for accelerated depreciation of noncorporate businesses. FEI is shown on a family rather than a tax-return basis. The economic incomes of all members of a family unit are added to arrive at the family's economic income used in the distributions.

(3) The change in Federal taxes is estimated at 1998 income levels but assuming fully phased in (2007) law and behavior. For the IRA provisions and education accounts, the change is measured as the present value of the tax savings from one year's contributions. The effect of the capital gains provision is based on the level of capital gains realizations under current law.

(4) The taxes included are individual and corporate income, payroll (Social Security and unemployment), and excises. Estate and gift taxes and customs duties are excluded. The individual income tax is assumed to be borne by payors, the corporate income tax by capital income generally, payroll taxes (employer and employee shares) by labor (wages and self-employment income), excises on purchases by individuals by the purchaser, and excises on purchases by business in proportion to total consumption expenditures. Federal taxes are estimated at 1998 income levels but assuming 2007 law and, therefore, exclude provisions that expire prior to the end of the Budget period and are adjusted for the effects of unindexed parameters.

(5) Families with negative incomes are included in the total line but not shown separately.

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

June 25, 1997

The Honorable Newt Gingrich
Speaker
United States House of Representatives
Washington, D.C. 20515-4005

Dear Newt:

The Administration strongly opposes H.R. 205, The Taxpayer Relief Act of 1997, as it will be considered on the floor of the House.

An essential element of the understandings reached at the time of the bipartisan budget agreement was that tax cuts were to avoid explosion of outyear costs and were to be targeted to provide significant relief for lower- and middle-income taxpayers. The agreement called for roughly $35 billion over 5 years of education incentives along the lines of the President's HOPE scholarship credit and tuition deduction proposals, as necessary to provide relief for lower- and middle-income families paying higher education expenses. The Bill fails to meet these agreed-upon conditions.

We believe the benefits of the tax cut package should be distributed equitably. Our preliminary analysis of the major tax cut provisions in the Bill shows that 67.9 percent of the tax changes (when fully in place) go to the top 20 percent of taxpayers, 19.3 percent go to the top 1 percent, and only 12.1 percent go to the lowest 60 percent of the population.

We strongly believe that the following problems must be addressed. These changes would improve distributional equity, as well as moderate the ballooning of outyear revenue losses.

<u>The Bill will reduce the value of the $500 child credit for millions of low-income families by requiring a family to take the child credit only after the Earned Income Tax Credit (EITC) is taken against their tax liability</u>. A married couple with two children and $25,000 of income, for example, would receive no tax relief from the child credit under this proposal. If the child credit was stacked before the EITC, this family would get $975. This family pays $1912.50 in payroll taxes, their employers pay $1912.50 in payroll taxes and they pay $975 in income taxes. Working families who pay taxes deserve to receive the benefit of the child credit. The Administration believes strongly that the child credit should be treated like other nonrefundable credits and stacked before the EITC. Both the 1995 Balanced Budget Act tax proposals passed by Congress, and the legislation introduced by Majority Leader Lott this year (S.2) stacked the child credit before the EITC.

The proposed legislation singles out certain families who pay for child care and gives them a smaller tax cut. Based on Chairman Archer's recent announcement, married couples earning above $60,000 who receive a tax credit for their child care expenses would, beginning in 2002, lose 50 cents for each dollar of their child credit. This provision unfairly limits tax relief for single parents who are required to work to support their children and families with second earners who are struggling to maintain a decent standard of living.

The education package falls nearly $13 billion short of the agreed goal of $35 Billion in tax cuts for education that are consistent with the HOPE scholarship and tuition deduction proposals in the President's FY98 Budget. Furthermore, as compared to the President's proposals, it directs more benefits toward upper-income families while reducing the benefits to lower-income families who rely on loans and grants to finance their education. It introduces serious administrative complications and would be much less effective than the President's proposals in enhancing educational opportunities for students.

- The HOPE credit would be cut to 50 percent of tuition expenses, halving the value of education benefits for millions of students attending community colleges and other low-cost institutions.

- Unlike the universally available tuition deduction in the President's package, the tuition deduction in the Bill would be available only if education expenses are paid from certain education savings plans. Hence, no help is given to low-income students and students who must borrow to pay tuition.

- Tax-free savings offered through new education investment accounts and the opportunities for tax-deferred saving through private prepaid tuition plans are overly generous to upper income families, since they have neither income limits nor contribution limits. This would give high-income taxpayers an incentive to use these vehicles to save tax-free, even if they never intend to use the savings for education expenses.

The American Dream IRAs are not sufficiently targeted. Contributions could be made to these back-loaded IRAs without any income limits, which would surely result in a substantial shifting of existing savings into tax-preferred investment vehicles by high-income taxpayers, rather than creating new savings. These provisions significantly add to the dual problems of outyear cost explosion and distributional inequity.

The proposal to index certain capital assets and lower the rate of tax on capital gains provides a double benefit to taxpayers, substantially overcompensating them for the effects of inflation. The package would disproportionately benefit those with high incomes over lower- and middle-income wage earners. The package also would have an explosive revenue cost in years after 2007, possibly jeopardizing all of our important work on deficit reduction. In addition, the indexing proposal is enormously complex and difficult to administer. To quote the New York State Bar Association, indexing is "fundamentally flawed" and would create problems that would

"overwhelm taxpayers and the IRS." The President has indicated he would not sign legislation with this provision.

The Bill provides unwarranted benefits to large corporations. At a time when the U.S. economy is the strongest in the world, and profits are running at record levels, the Bill proposes to spend $22 billion over 10 years to reduce corporate Alternative Minimum Tax liabilities for America's largest companies. In addition, we are concerned about the proposal to reduce the corporate capital gains tax rate.

The Bill contains other provisions that raise serious concerns. For instance, the safe-harbor for independent contractor status would permit employers to avoid essential worker protections. This proposal could lead to widespread shifting of employees to independent contractor status, resulting in loss of worker protections such as pension and health coverage, and consequently wage and hour protections, unemployment insurance benefits and compensation for work-related injuries. We oppose the changes to the Work Opportunity Tax Credit (WOTC) that allow employers to claim the WOTC credit for hiring workers for a very short period of time, particularly when this measure is paid for by weakening the incentive provided by the welfare-to-work credit.

The Nation's mayors and urban and rural communities have clearly told us that the President's Brownfields initiative is vitally important to encouraging businesses to clean up and revitalize thousands of contaminated sites around the country. The Bill should include this proposal. Furthermore, the Bill should provide for additional Empowerment Zones and Enterprise Communities to stimulate private investment and economic activity in depressed urban and rural communities.

The Bill omits a number of important initiatives that were included in the President's FY98 Budget.. No provision is included to stimulate investments in Community Development Financial Institutions to revitalize distressed neighborhoods around the country. No provision is included for equitable tolling, which protects a taxpayer's rights when he or she is incapacitated, or for restructuring our Nation's affordable housing portfolio. No economic incentives are provided for new investment in Puerto Rico.

The Bill is heavily laden with special-interest provisions. We believe that it is inappropriate to use this reconciliation Bill as a catch-all for new tax breaks for special interests.

For all of these reasons, the Administration opposes the House Bill in its current form. Nevertheless, we are eager to work with the Congress to fashion, and enable the President to sign, tax-cut legislation that addresses these problems, that is faithful to the bipartisan budget agreement, and that is fair to all Americans.

Sincerely,

Robert E. Rubin

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
June 27, 1997

Contact: Kelly Crawford
(202) 622-2960

DAVID LIPTON NAMED UNDER SECRETARY FOR INTERNATIONAL AFFAIRS

President Clinton today announced his nomination of Assistant Secretary of the Treasury for International Affairs David A. Lipton to be Under Secretary of the Treasury for International Affairs.

"David has been an important part of this Administration's international economic team. He has been a key contributor to our policy toward Russia and the Ukraine and has been instrumental in shaping the economic and financial aspects of our policy in Bosnia," Secretary Rubin said.

As Under Secretary of the Treasury for International Affairs, Lipton will advise and assist the Secretary and the Deputy Secretary on all aspects of international economic policy. As Assistant Secretary of the Treasury for International Affairs since December 1995, Lipton focused on international and economic policy coordination; economic and financial relations with both industrialized and developing countries; foreign investment in the United States and the U.S. policy with respect to the International Monetary Fund and the multilateral development banks. Prior to this position, Lipton was the Deputy Assistant Secretary for Eastern Europe and the former Soviet Union. During this time, he worked to design and implement a policy of U.S. leadership in support of comprehensive, market oriented reform in the economies in transition and worked to engage the G-7 and the international financial institutions in pursuit of multilateral backing for that historic process.

Before joining the Clinton administration in the spring of 1993, Lipton was a Fellow at the Woodrow Wilson Center of Scholars. From 1989 until 1992, working under the auspices of the United Nations Development Program and the World Institute for Development Economics Research, he was an economic advisor to the governments of Russia, Poland and Slovenia. Lipton was an economist at the International Monetary Fund from 1981-1989.

Lipton was born on November 9, 1953 in Boston, Massachusetts. He received a B.A. in Economics from Wesleyan University and both an M.A. and a Ph.D. in Economics from Harvard University. He is married to Susan Galbraith and has three children.

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RR-1795

For press releases, speeches, public schedules and official biographies, call our 24-hour fax line at (202) 622-2040

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

June 27, 1997

FEDERAL FINANCING BANK

Charles D. Haworth, Secretary, Federal Financing Bank (FFB), announced the following activity for the month of May 1997.

FFB holdings of obligations issued, sold or guaranteed by other Federal agencies totaled $51.9 billion on May 31, 1997, posting a decrease of $1,376.8 million from the level on April 30, 1997. This net change was the result of a decrease in holdings of agency debt of $318 million, in holdings of agency assets of $1,050 million, and in holdings of agency guaranteed loans of $8.8 million. FFB made 16 disbursements during the month of May. FFB also received 24 prepayments in May.

Attached to this release are tables presenting FFB May loan activity and FFB holdings as of May 31, 1997.

RR-1796

FEDERAL FINANCING BANK
MAY 1997 ACTIVITY

BORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST RATE
GOVERNMENT - GUARANTEED LOANS				
GENERAL SERVICES ADMINISTRATION				
Memphis IRS Service Cent.	5/5	$3,759.82	1/2/25	7.024% S/A
Atlanta CDC Office Bldg.	5/14	$1,458.62	9/2/25	7.044% S/A
Foley Square Courthouse	5/14	$36,853.00	7/31/25	7.044% S/A
HCFA Headquarters	5/14	$23,120.00	7/1/25	7.044% S/A
Miami Law Enforcement	5/14	$1,458.62	1/3/22	7.033% S/A
Atlanta CDC Office Bldg.	5/22	$1,531.56	9/2/25	7.088% S/A
Chamblee Office Building	5/23	$500,902.19	4/1/99	6.375% S/A
Chamblee Office Building	5/29	$1,394,431.00	4/1/99	6.444% S/A
HCFA Headquarters	5/29	$2,236.70	7/1/25	7.146% S/A
Memphis IRS Service Cent.	5/29	$19,718.92	1/2/25	7.145% S/A
Foley Square Office Bldg.	5/30	$130,092.00	7/31/25	7.098% S/A
GSA/PADC				
ICTC Building	5/19	$11,058,491.67	11/2/26	7.033% S/A
RURAL UTILITIES SERVICE				
Pulaski-White Tele. #417	5/2	$253,000.00	12/31/14	6.855% Qtr.
W. Farmer Elec. #285	5/2	$955,000.00	1/3/17	6.904% Qtr.
Pineland Telephone #403	5/8	$1,072,000.00	1/2/24	7.023% Qtr.
Tri-State #336	5/16	$2,407,000.00	12/31/20	6.921% Qtr.

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

FEDERAL FINANCING BANK
(in millions)

Program	May 31, 1997	April 30, 1997	Net Change 5/1/97-5/31/97	FY '97 Net Change 10/1/96-5/31/97
Agency Debt:				
Export-Import Bank	$ 1,357.3	$ 1,357.3	$ 0.0	$ -464.5
Resolution Trust Corporation	2,353.3	2,671.2	-318.0	-3,642.9
U.S. Postal Service	0.0	0.0	0.0	-1,500.0
sub-total*	3,710.5	4,028.5	-318.0	-5,607.4
Agency Assets:				
FmHA-RDIF	3,675.0	3,675.0	0.0	0.0
FmHA-RHIF	15,455.0	16,505.0	-1,050.0	-3,245.0
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*	23,753.3	24,803.3	-1,050.0	-3,245.0
Government-Guaranteed Loans:				
DOD-Foreign Military Sales	3,133.7	3,146.4	-12.7	-113.5
DoEd-HBCU	0.2	0.2	0.0	0.0
DHUD-Community Dev. Block Grant	36.9	37.0	-0.1	-2.2
DHUD-Public Housing Notes	1,561.4	1,561.4	0.0	-65.4
General Services Administration +	2,371.4	2,367.6	3.9	39.2
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	15,679.1	15,674.4	4.7	-1,071.6
SBA-State/Local Development Cos.	288.5	293.1	-4.6	-29.9
DOT-Section 511	4.0	4.0	0.0	-8.7
sub-total*	24,402.3	24,411.2	-8.8	-1,327.7
grand-total*	$ 51,866.2	$ 53,243.0	$ -1,376.8	$-10,180.1

*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

FOR IMMEDIATE RELEASE
June 27, 1997

Contact: Kelly Crawford
(202) 622-2960

GARY GENSLER NAMED ASSISTANT SECRETARY FOR FINANCIAL MARKETS

President Clinton today announced his nomination of Gary Gensler to be Assistant Secretary of the Treasury for Financial Markets.

Gensler is a partner of the international investment banking firm, The Goldman Sachs Group, L.P. Gensler joined Goldman Sachs in 1979 in the Mergers & Acquisition Department. In 1984, he assumed responsibility for the firm's efforts advising media companies and was elected a partner in 1988. Gensler subsequently joined the firm's Fixed Income Division a and directed Goldman's Fixed Income and Currency trading efforts in Tokyo. Since 1995, Gensler has been Co-head of Finance for Goldman Sachs worldwide.

As Assistant Secretary for Financial Markets, Gensler will serve as a senior advisor to the Secretary of the Treasury in developing and implementing the Federal Government's policies and plans for debt management and the sale of U.S. government securities. He will further advise on broad matters of Federal, State and local finance, including leading the Treasury's participation in the financing of the District of Columbia. Gensler will serve as a senior member of the Treasury Financing Group and the Working Group on Financial Markets.

Gensler graduated summa cum laude from the University of Pennsylvania's Wharton School in 1978 with a Bachelor of Science in Economics, where he also received a Master of Business Administration from the Graduate Division in 1979. Gensler is a National Trustee of The Baltimore Museum of Art. He and his wife, Francesca Danieli, have three daughters and reside in New York City. Gensler was born in Baltimore, Maryland.

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DEPARTMENT OF THE TREASURY

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FOR IMMEDIATE RELEASE
June 27, 1997

Contact: Kelly Crawford
(202) 622-2960

NANCY KILLEFER NAMED ASSISTANT SECRETARY FOR MANAGEMENT & CFO

President Clinton today announced his nomination of Nancy Killefer to be Assistant Secretary of the Treasury for Management and Chief Financial Officer.

Killefer is a Director in the Washington, D.C. office of McKinsey &Company, Incorporated and is a leader of the Consumer and Retailing Practice Group. In her 17 years with the Firm, Killefer has focused on strategy, marketing and organizational efficiency issues for consumer goods and services businesses.

As Assistant Secretary for Management, she will serve as the principal policy advisor to the Secretary and Deputy Secretary on all matters involving the financial and internal management of the Department and its bureaus. Killefer will be responsible for the Department's budget and also oversee all management, personnel and procurement policies within the Department. As Chief Financial Officer, she will further be responsible for ensuring sound financial management and proper stewardship of taxpayer funds at the Department.

Ms. Killefer graduated with honors from Vassar College with a Bachelor of Arts in economics, and she also received a Master in the Science of Management and Finance from the Sloan School of the Massachusetts Institute of Technology.

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RR-1798

PRESIDENT CLINTON'S TAX CUT PROPOSAL

SUMMARY DOCUMENTS

June 30, 1997

RR-1799

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VI. President Clinton's Higher Education Tax Cuts -- Greater Benefits for More Families

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President Clinton's Tax Cut Proposal
A Fact Sheet

EDUCATION TAX CUTS

- ***Two-year HOPE Scholarship.*** A maximum $1,500 credit beginning in 1998. Students attending on at least a half-time basis would receive a 100% credit for the first $1,000 of tuition and required fees for enrollment in a post-secondary degree or certificate program and a 50% credit for up to the next $1,000. For example, a student attending a community college with tuition costs of $1,400 would receive a $1,200 HOPE Scholarship. Scholarships would be phased out for joint filers earning between $80,000 and $100,000. Eligible students could receive both a full Pell Grant and a HOPE Scholarship. The previously proposed B-rule has been dropped. After 2002, the HOPE Scholarship increases to a 100% credit for the first $1,500 and a 50% credit for the next $1,000 of tuition and required fees.

- ***20% Tuition Tax Credit.*** Third and fourth year students, graduate students, plus working people going to school to improve their education and skills, would benefit from a 20% tax credit on the first $5,000 of tuition and required fees through the year 2000 and after 2000 a 20% tax credit on the first $10,000 of tuition and required fees. The credit would be phased out for joint filers earning between $80,000 and $100,000.

- ***Education and Retirement Savings Accounts.*** Allows penalty-free IRA withdrawals for undergraduate, post-secondary vocational, and graduate education expense and the first-time purchase of a home. Additionally, taxpayers are given the opportunity to contribute their child tax credit plus an additional $500, up to $1,000, to a Kidsave Account for the child's education, first-time home purchase or the taxpayer's retirement. Earnings would accumulate tax-free in the Kidsave Account and no taxes would be due upon withdrawal for an approved purpose.

- ***Tax Incentives for School Construction.*** Provides tax credits to finance construction and/or rehabilitation of elementary or secondary schools in distressed communities. States would be able to allocate a fixed amount of tax credits (based on population) to public schools to help pay for construction or renovation projects. The allocation would be for projects in schools that are in empowerment zones or enterprise communities, or that have a high percentage of low-income students. This program would function similarly to the current low-income housing tax credit program.

- ***Employer-Provided Education Benefits.*** Extends permanently Section 127 of the tax code, which allows people to exclude $5,250 of employer provided education benefits from their taxable income. Both undergraduate and graduate education would be eligible. Additionally, a 10% employer credit for small business training is included. This credit would apply to payments made to third parties to cover expenses of education for employees under employer-provided education assistance programs. The credit would be available to employers with average annual gross receipts of $10 million or less for the prior three years.

- ***Student Loan Interest Deduction and Forgiveness.*** Allows a deduction of up to $2,500 per year of interest on education loans for expenses of students enrolled at least half-time at an institution of higher education. The deduction would be allowed for the first 60 months interest is due on a loan. The deduction would phase out for taxpayers making between $45,000 and $65,000 ($65,000 and $85,000 for married taxpayers filing jointly). This deduction would be available even if the taxpayer does not itemize deductions.

  To encourage people to use their education and training in community service, the income exclusion for student loan forgiveness would be expanded to include loan forgiveness extended by nonprofit tax-exempt charitable or educational institutions, and to loans forgiven under the Direct Loan Program's income-contingent repayment program. Currently, the exclusion generally covers only contingent forgiveness arrangements between students and government entities.

- ***Incentives for K-12 Computer Donations.*** Provides tax incentives for private sector donations of computer equipment to schools. The proposal would work in combination with the Telecommunications Act of 1996 to ensure that public schools have access to modern computer technology.

- ***Repeal Cap on Tax Exempt Bond Issuance by Colleges and Universities.*** Repeals the $150 million bond cap that affects private higher education institutions and certain other charitable institutions. The repeal would apply to tax-exempt bonds issued by these institutions to finance new capital expenditures.

CHILD TAX CREDIT

The President's child tax credit includes the following features:

- **Age.** Covers children under 17 through 2002 and under 19 thereafter.
- **Amount per child.** $400 in 1998, $500 in 1999 and then indexed.
- **Income Limits.** Phased out for families making $60,000 to $75,000 until 2000, and then $80,000 to $100,000 thereafter.
- **Refundability to Cover Out-of-Pocket Income and Payroll Taxes.** Working families who pay out of pocket federal taxes would benefit from the child tax credit. Child tax credit is calculated before the EITC and will be partially refundable. A family will get a child credit for their income taxes plus the extent to which their out-of-pocket (employee share) payroll taxes exceed their EITC.
- **Savings Incentive Feature.** As described above, taxpayers who are entitled to a child credit would be given the opportunity to contribute their child tax credit plus an additional $500 each year to a Kidsave Account for the child's education, first time home purchase or the taxpayer's retirement. Earnings would accumulate tax-free in the account and no taxes would be due upon withdrawal for an approved purpose.

URBAN REVITALIZATION

- ***Incentives to Clean Up and Redevelop Contaminated Sites (Brownfields).*** Certain environmental remediation costs would be provided tax favorable treatment, allowing them to be fully deducted immediately, to spur clean-up and redevelopment of contaminated sites in high poverty areas. To qualify for this tax incentive, sites would have to satisfy use, geographic, and contamination requirements.

- ***Expand Empowerment Zones and Enterprise Communities.*** The proposal has the three main components that were in the President's budget. First, within 180 days of enactment, two additional urban empowerment zones would be authorized and would benefit from current tax incentives. Second, technical changes would be made to allow a broader range of businesses in EZs and ECs to borrow the proceeds of tax-exempt bonds. Third, the proposal authorizes the additional designation of 20 (15 urban and 5 rural) Empowerment Zones and 80 (50 urban and 30 rural) Enterprise Communities. The newly designated zones would have different available tax incentives than existing zones. The current law wage credit would not be available. The brownfields incentives would be available as would special expensing of business assets and qualification for private-activity bonds.

- ***Community Development Financial Institutions Fund.*** Up to $100 million in tax credits would be made available to the CDFI Fund to allocate for equity investors in community development financial institutions to leverage private investment in distressed areas and to stimulate economic revitalization.

- ***Washington, D.C.*** Provides tax incentives for firms to hire District residents, and a new credit that will be allocated to debt and equity by a new economic development corporation, and to allow the issuance of additional tax-exempt debt to help finance new business activity in the District.

WELFARE-TO-WORK TAX CREDIT

As proposed in the President's budget, to help move people from welfare to work, a new 50% tax credit would be made available on the first $10,000 in annual wages of certain long-term family assistance recipients for two years of employment.

SMALL BUSINESS TAX CUTS:

Home office deduction

The existing home office deduction would be broadened to cover small businesses where: (1) the office is exclusively used to conduct substantial and essential administrative or management activities on a regular basis; and (2) the taxpayer has no other location to conduct these essential administrative or management activities.

Example #3:

A single mother lives with her six year old daughter in California. She's been working as a bank teller for several years and her pay is now $20,000 a year. When she tallies up her taxes, she owes $1,200 in federal income taxes. A $1,150 Earned Income Tax Credit offsets much of this income tax. However, she pays $1,530 a year in payroll taxes, not to mention the additional $1,530 the bank pays on her behalf.

Under the President's plan this single mom would receive a $500 child tax credit for her daughter. (Note: This woman and her daughter would receive no tax cut under either the House or Senate plans).

	Tax Cut under Clinton Proposal
Family of two with one child aged 6 and $20,000 income:	
Child Tax Credit for 6 year old	$500
Total tax cut:	$500

Example #4

A teacher with six years experience, earning $40,000 a year, would like to get her masters degree before she marries and has children. Her principal has agreed to adjust her schedule so that she can attend classes in the afternoon and evening. The tuition and fees charged for the program total $6,500.

She will receive a 20 percent tax credit on the first $5,000 of the tuition she pays.

	Tax Cut under Clinton Proposal
Single teacher making $40,000, attending graduate school:	
Tuition Tax Credit:	$1,000
Total Tax Cut:	$1,000

(Note: All examples are for tax year 1999)

IT IS WRONG TO DENY TAX RELIEF TO AMERICA'S WORKING FAMILIES

Compared to the President's proposal, four million working families will largely be denied a child tax credit under the congressional tax plans. The President strongly believes that families who work hard, play by the rules and make approximately $18,000 or $28,000, who pay taxes, and who are trying to do the best for their kids just like everybody else, deserve a tax cut too.

This is an issue that is susceptible to both eye-glazing technical jargon, talk of "stacking," and misleading rhetoric: "It's welfare." Setting aside the jargon and the rhetoric, this is an issue best weighed by looking at real people:

Example -- Family of Four with Two Children

Consider a family of four with two children living in a medium sized southern city. The father is a rookie police officer making $23,000. and the mother is taking a few years off from working. This family pays federal taxes well above the amount of EITC they receive:

Federal Tax Situation Before Any Child Tax Credit:

Income taxes owed before EITC	$675
Payroll Taxes (just employee share)	$1,760
Excise Taxes/1	$354
Federal out of pocket taxes owed before EITC	$2,789
Employer Share of Payroll taxes	$1,760
Federal Taxes before EITC	$4,549
Benefit from EITC	$1,668

	President Clinton's Proposal	House Bill	Senate Bill
Child Tax Credit for family of rookie police officer making $23,000	$767	$0	$0

Notes:

1 Estimate calculated from Congressional Budget Office Data. CBO estimates that in 1998, families with incomes between $20,000 and $30,000 would pay 1.54 percent of their income in federal excise taxes.

How the President's Tax Cut Proposals Benefit Typical American Families

Example #1

Consider a family of four who makes $40,000 a year. The father is a carpenter and makes $25,000 and the mother makes $15,000 working at a local department store. They have two kids, a son who is 14 and a freshman in high school and a daughter enrolled full-time in her first year at the local community college. Her tuition is $1,200 a year.

The President's tax cut proposal will benefit this family in at least two ways. They will receive a child tax credit of $500 for their son plus a HOPE Scholarship of $1,100 for their daughter. In total, they will receive a $1,600 tax cut in the President's proposal.

	Tax Cut under Clinton Proposal
Family of four with two children aged 14 and 18 and $40,000 income:	
Child Tax Credit for 14 year old	$500
HOPE Scholarship for 18 year old	$1,100
Total tax cut:	$1,600

Example #2

Consider a family of three making $55,000 a year. The father has a degree in accounting and works for a local business in the accounting department. The mother works part-time at the local library. They have one daughter aged 14. The father would like to return to school to prepare for his CPA examination. He is going to attend the local liberal arts college. He has signed up for two courses with total tuition of $4,000.

This family will receive a $500 tax child tax credit for their daughter and a $800 tuition tax credit to help pay for the father's course work.

	Tax Cut under Clinton Proposal
Family of three with one child aged 14 and $55,000 income:	
Child Tax Credit for 14 year old	$500
Tuition tax credit	$800
Total tax cut:	$1,300

President Clinton Unveils Tax Cut Proposal

June 30, 1997

President Clinton's tax cut proposal provides needed tax relief to working families who play by the rules, pay taxes, and are trying to do the best for their kids. It includes a major investment in the President's top priority -- education -- by making the first two years of college universally available and doing something the other plans do not: helping those Americans who are working and want to improve their education and upgrade their skills. Lastly, President Clinton's proposal incorporates Republican priorities in a good faith effort to honor the budget accord and to reach final agreement for a tax cut the American people deserve.

THE PRESIDENT'S PROPOSAL IS FAIR. The bulk of the President's tax cut goes to middle-class families -- two-thirds of the President's tax cut goes to the middle sixty percent of families, twice the share the alternative congressional plans provide these middle class families.

THE PRESIDENT PLACES A HIGHER PRIORITY ON EDUCATION TAX CUTS. Education must be America's highest priority and the core of our tax cut plan must help families pay for education. To offer opportunity in the new and rapidly changing economy, we must make the 13th and 14th years of education -- the first two years of college -- as universal as a high school diploma is today. We must also do what we can to help people throughout their lives improve their education and upgrade their skills throughout their lives. The President's plan:

✓ **ADVANCES THE GOAL OF MAKING THE FIRST TWO YEARS OF COLLEGE UNIVERSAL.** The plan includes a modified two-year $1,500 HOPE Scholarship that does more to help community college students than the congressional alternatives. First and second year students would receive a $1,000 credit for the first $1,000 of tuition and fees plus 50% of as much as another $1,000 in tuition and fees. Therefore, a student going to a typical community college with tuition of $1,200 would receive a $1,100 credit under the President's proposal, compared to just $600 and $900 under the House and Senate plans respectively.

✓ **HELPS THIRD AND FOURTH YEAR STUDENTS AND PROMOTES LIFELONG LEARNING.** The congressional plans give virtually no support to families who are struggling to pay college costs out of pocket. Students beyond the second year would benefit only if they had substantial savings or when they paid interest on student loans. Students over 30 -- one-fourth of all undergraduate students -- could not even make use of the education savings accounts that Congress is proposing. At a time when older workers need to improve their education and upgrade their skills, it is critical that the education tax cuts promote lifelong learning. The President's proposal accomplishes this goal: It provides a 20 percent tuition credit on expenses up to $5,000 initially and $10,000 beginning in 2001.

✓ **INCORPORATES OTHER GOOD EDUCATION IDEAS INCLUDED IN VARIOUS PROPOSALS,** such as a permanent extension of the tax preference for employer-provided undergraduate and graduate education, tax incentives for school construction, a student loan interest deduction, and tax exclusion for community service and income-contingent loan forgiveness.

THE PRESIDENT BELIEVES THAT FAMILIES WHO WORK HARD, PAY TAXES, AND TRY TO DO THE BEST FOR THEIR KIDS DESERVE A TAX CUT. HIS PLAN CUTS THE TAXES OF THE 4 MILLION FAMILIES SHORTCHANGED BY CONGRESS. The President's proposal includes a $500 child tax credit for children under 17 through 2002 and under 19 thereafter. The President has a basic disagreement with some members of Congress. Consider *a family of four with two small children: the father is a rookie police officer making $23,000, and the mother is taking a few years off from teaching. They pay out of pocket over $1,000 a year in federal taxes.* The President believes that this family needs and deserves a tax cut just as much as family who makes twice as much. The Congressional plans would deny this family a tax cut. Under the President's plan, this family would receive a $767 child tax credit.

TAX INCENTIVES TO CLEAN-UP AND REVITALIZE DISTRESSED NEIGHBORHOODS BELONG IN THE FINAL TAX PACKAGE. In the balanced budget agreement, President Clinton and Congress agreed to make all efforts to include three programs critical to our urban areas in the final budget package: a Brownfields tax incentive; new Empowerment Zones and Enterprise Communities (EZ/EC); and expansion of the Community Development Financial Institutions (CDFI) fund. Unfortunately, neither the House tax bill nor the Senate tax bill includes the President's Brownfields and EZ/EC initiatives. *Today, the President includes these two vital provisions, plus a new tax credit to encourage investment in CDFIs and an enhanced welfare-to-work tax credit, in his tax cut proposal.*

Change in Income Tax: Comparison of Current Law with The President's Proposal and the House and Senate Tax Bills

Couple with Income of $23,000 and Two Children
(1999 Tax Parameters)

	Current Law	President's Proposal	House Tax Bill	Senate Tax Bill
Adjusted Gross Income (AGI) -- all earnings	23,000	23,000	23,000	23,000
Standard Deduction	7,300	7,300	7,300	7,300
Personal Exemptions	11,200	11,200	11,200	11,200
Taxable Income	4,500	4,500	4,500	4,500
Income Before Tax Credits	675	675	675	675
Employee Payroll Tax (7.65% of earnings)	1,760	1,760	1,760	1,760
Child Credits	0	767	0	0
Earned Income Credit (refundable)	1,668	1,668	1,668	1,668
Income Tax After Credits	-993	-1,760	-993	-993
Tax Savings Compared to Current Law		767	0	0

Department of the Treasury
Office of Tax Analysis

June 27, 1997

The President's Higher Education Tax Cuts: Greater Benefits for More Families

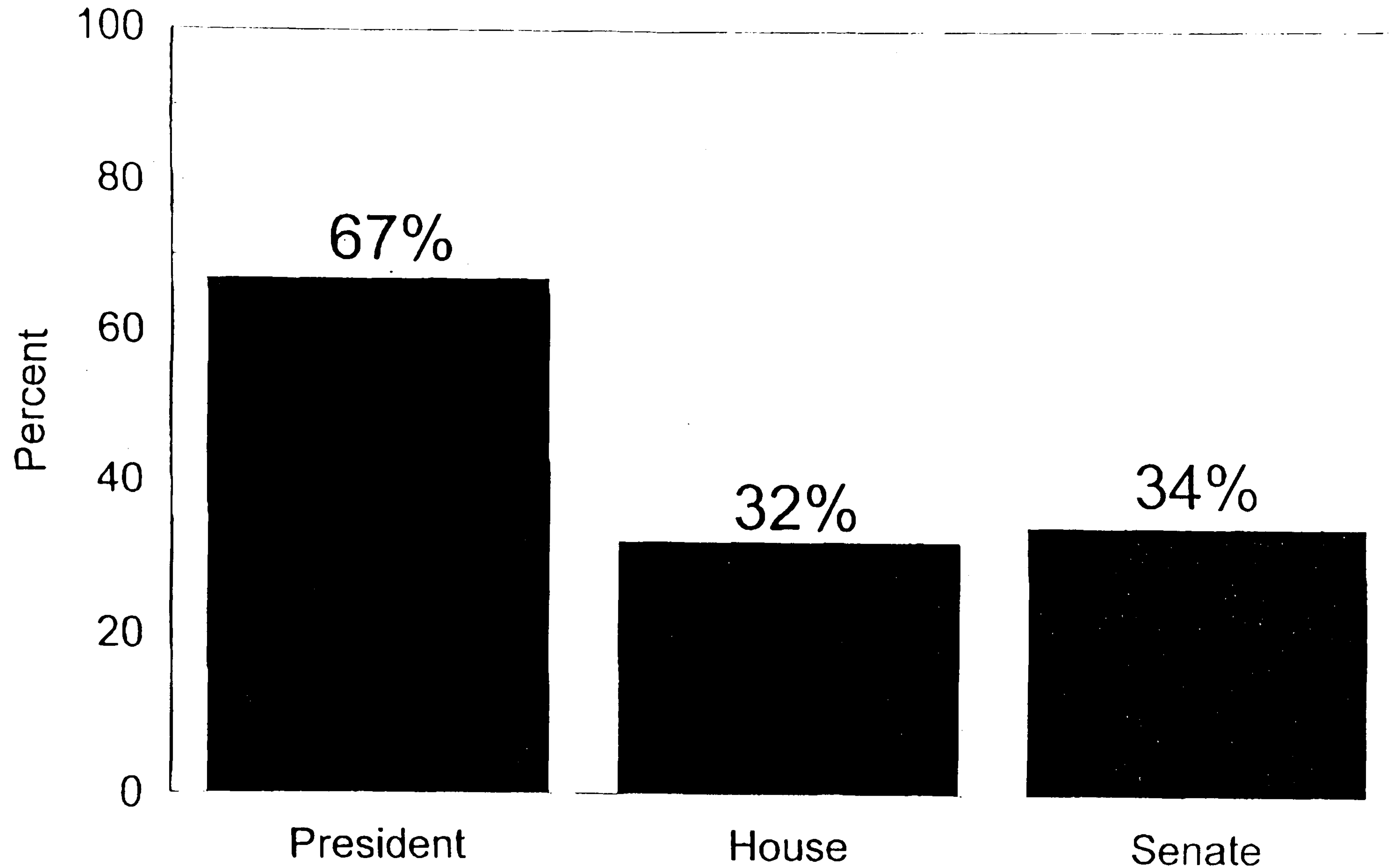
While providing the greatest help in the first two years, the President's plan has always gone *much* further, granting a substantial tax cut for *any* investment in postsecondary education or training. Unlike the Congressional plans, the Administration's higher education tax cut covers *all types and ages of students*, including:

- part-time students;
- students beyond their first two years of undergraduate study;
- graduate students;
- workers who are improving job skills rather than seeking a degree;
- those not fortunate enough to have been able to put a lot of money into savings.

For many situations that families find themselves in, the plans passed by the Senate and the House provide little or no help. Consider the following common situations:

	House Plan	Senate Plan	President
Family with $50,000 income, one child going to an average two-year community college full-time ($1,200 tuition and fees)	$600	$900	$1,100
Family with $30,000 income, one parent going to a public four-year college less than half-time ($2,000 tuition and fees)	$0	$0	$400
Family with $40,000 income, one child is **junior** at average private college ($12,000 tuition and fees)	$0	$0	$1,000
Homemaker, family income of $70,000, decides to go to graduate school at public university after being out of college for 20 years ($3,500 tuition and fees).	$0	$0	$700

Share of Tax Cuts Going to Middle Sixty Percent of Families



Source: Department of Treasury

PROPOSED REVENUE RAISERS (in millions of dollars)	1997-2002	1997-2007
Expansion of requirement that involuntarily converted property be replaced with property acquired from an unrelated person	30	115
Repeal installment sales grandfather rules of 1986 Act	353	507
Inclusion of income from notional principal contracts and stock lending transactions under Subpart F	92	202
Further restrict like-kind exchanges involving foreign personal property	51	156
Impose holding period requirement for claiming foreign tax credits with respect to dividends	230	552
Limitation on treaty benefits for payments to hybrid entities	0	0
Treatment of income form certain sales of inventory as U.S. source income	37	105
Modify foreign tax credit carryover rules	1,925	3,391
Replace truck excise tax deduction for tire value with tax credit for excise tax paid on tires	452	978
Limitation on Charitable Remainder Trust annual payouts	5	10
TOTALS	**49,771**	**100,526**

Year-by-year path of net tax cuts in the competing tax plans

Net Tax Cuts in House, Senate and Administration Proposals, 1998-2007 (in billions)										
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
House	4.4	5.8	26.7	27.2	20.0	27.1	29.7	31.9	36.1	40.9
Senate	-1.5	19.1	22.2	24.9	20.1	24.1	29.0	32.0	36.1	41.1
Administration	5.0	17.0	17.7	20.6	24.0	27.8	30.5	30.6	32.6	34.1

JCT Scoring of Senate Finance package (June 20, 1997, #97-2 164); JCT scoring of House Package (#97-1 149); Treasury scoring of Administration Package.

Alternative Tax Cut Proposals
A Comparison of Distributional Impact

Income by Quintile	*President Clinton*	*House*	*Senate*
Lowest	1.2%	0.6%	0.4%
Second	10.1	2.5	2.7
Third	22.2	9.6	10.2
Fourth	34.6	20.0	21.3
Highest	31.5	66.8	65.0
Top 10%	11.7	47.3	42.3
Top 5%	6.5	34.9	28.2
Top1%	2.6	18.8	12.5
Middle 60% (Second,third, fourth quintiles)	**66.9%**	**32.1%**	**34.2%**

Source: U.S. Department of Treasury

Tables assumes fully phased-in (2007) law and behavior, in 1998 dollars. It includes major tax cut provisions in each of the plans: HOPE Scholarship, tuition credit, Section 127, Student loan interest deduction, child tax credit, Kidsave accounts, capital gains provisions, home office deduction, distressed areas initiatives, Puerto Rico tax incentives, individual and corporate AMT changes, prepaid tuition programs, IRAs, DC tax incentives, safe harbor for independent contractors, modifications of treatment of company owned life insurance.

PROPOSED REVENUE RAISERS (in millions of dollars)	1997-2002	1997-2007
Constructive sales treatment for appreciated financial products	708	1,199
Disllowance of interest on indebtedness allocable to tax-exempt obligations	114	373
Gains and losses from certain terminations with respect to property (extinguishment doctrine)	117	242
Determination of original issue discount where pooled debt obligations subject to acceleration	1,311	1,857
Tax treatment of certain extraordinary dividends	(75)	352
Recognition of gain in certain section 355 transactions	1,459	1,848
Tax treatment of redemption involving related corporations	35	60
Modify holding period for dividends-received deduction	51	136
Registration and other provisions relating to confidential corporate tax shelters	170	392
Certain preferred stock treated as "boot"	195	249
Reporting of certain payments made to attorneys	12	31
Decrease of threshold for reporting payments to corporations performing services for Federal agencies	34	93
Extend FUTA surtax and increase the statutory limit on the FUA Trust Fund from .25% of covered wages to .50%	6,376	6,736
Disclosure of return information for administration of certain Veterans' programs	116	304
Modify levy exemption and provide continuous levy on certain payments	1,271	1,732
Consistency requirement for returns of beneficiaries of estates and trusts	15	34
Extend airport and airway trust fund excise taxes	29,655	69,297
Reinstate LUST excise tax and extend	646	1,342
Flat excise tax on vaccines; allow new vaccines to be automatically covered	3	8
Modify control test and include attribution rules to determine UBIT consequences of certain payments from subsidiaries of tax-exempt organizations	41	62
Repeal 1986 Act grandfather rule for Mutual of America	32	78
Termination of suspense accounts for family farm corporations required to use accrual method of accounting	170	377
1-year carryback and 20-year carryforward for net operating losses (S-special rule for disaster areas)	3,518	5,194
Modification of treatment of company-owned life insurance - pro rata disallowance of interest on debt to fund life insurance	499	2,240
Repeal 14-day rule on rental of vacation properties	123	274

AUCTION RESULTS

PUBLIC DEBT NEWS

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

TREASURY SECURITY AUCTION RESULTS
BUREAU OF THE PUBLIC DEBT - WASHINGTON DC

FOR IMMEDIATE RELEASE
June 30, 1997

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Term: 91-Day Bill
Issue Date: July 03, 1997
Maturity Date: October 02, 1997
CUSIP Number: 9127945P5

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate 1/	Price
Low	5.09 %	5.23 %	98.713
High	5.12 %	5.26 %	98.706
Average	5.12 %	5.26 %	98.706

Tenders at the high discount rate were allotted 49%.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 33,385,830	$ 5,431,530
Noncompetitive	1,326,972	1,326,972
PUBLIC SUBTOTAL	34,712,802	6,758,502
Federal Reserve	3,786,430	3,786,430
Foreign Official Inst.		
Refunded Maturing	743,878	743,878
Additional Amounts	263,922	263,922
TOTAL	$ 39,507,032	$ 11,552,732

1/ Equivalent coupon-issue yield.

RR-1800

AUCTION RESULTS

PUBLIC DEBT NEWS

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

TREASURY SECURITY AUCTION RESULTS
BUREAU OF THE PUBLIC DEBT - WASHINGTON DC

FOR IMMEDIATE RELEASE
June 30, 1997

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Term:	183-Day Bill
Issue Date:	July 03, 1997
Maturity Date:	January 02, 1998
CUSIP Number:	912794523

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate 1/	Price
Low	5.12 %	5.33 %	97.397
High	5.14 %	5.35 %	97.387
Average	5.14 %	5.35 %	97.387

Tenders at the high discount rate were allotted 60%.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 27,964,469	$ 3,469,205
Noncompetitive	1,220,289	1,220,289
PUBLIC SUBTOTAL	29,184,758	4,689,494
Federal Reserve	3,485,000	3,485,000
Foreign Official Inst.		
Refunded Maturing	2,837,622	2,837,622
Additional Amounts	1,007,778	1,007,778
TOTAL	$ 36,515,158	$ 12,019,894

1/ Equivalent coupon-issue yield.

RR-1801