Treas.
HJ
10
.A13
P4
v.370

TREASURY DEPARTMENT LIBRARY

LIBRARY
ROOM 5310

JAN 7 1999

TREASURY DEPARTMENT

Treas.
HJ
10
.A13
P4
v. 370

Department of the Treasury

PRESS RELEASES

The following numbers were not used:
2399 and 2407

* Numbers 2334, 2335, and 2337 are listed out of order because they are dated April 1st instead of March 31st

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
March 2, 1998

Contact: Paul Elliott/Treasury (202) 622-2960
Bill Luecht/CDFI Fund (202) 622-8042

CDFI FUND ISSUES 1997 ANNUAL REPORT
Fund Receives Unqualified Audit Opinion

The Department of the Treasury's Community Development Financial Institutions (CDFI) Fund today released its 1997 Annual Report, "New Direction for Community Development". The annual report includes an unqualified opinion of the CDFI Fund's financial statements from the independent accounting firm of KPMG Peat Marwick LLP.

The financial statements cover the period from the inception of the Fund (September 23, 1994) through fiscal year 1997 (September 30, 1997).

"This unqualified opinion is a very significant achievement for a new organization," said Treasury Under Secretary John D. Hawke, Jr. "Since its inception just over three years ago, the CDFI Fund has helped numerous communities leverage private funds for investment. The Fund is focused on strengthening its structure to ensure sound operation in the years ahead."

The annual report illustrates the year's activities, including the work undertaken by Community Development Financial Institutions and Bank Enterprise Awardees who received awards from the CDFI Fund. The report also notes that the CDFI Fund identified several material weaknesses in its own procedures, and the report details the steps being taken to correct these problems. For example, the Fund now has in place a new management team including a new Director, Deputy Director for Management/Chief Financial Officer and Deputy Director for Policy and Programs. Other new roles include an awards manager and staff accountant.

The KPMG audit report recognizes several problems in the CDFI Fund's operations during 1997 including material weaknesses in the Fund's internal controls and noncompliance related to the lack of a formal Federal Managers Financial Integrity Act process and compliance with the Federal Managers Improvement Act. In general, the audit recommends that the Fund proceed with the steps it has been taking to strengthen management and procedures at the Fund.
RR-2261

"As we look at 1998, the CDFI Fund is well positioned to help communities across the country to recognize their economic potential," said Director Ellen Lazar. "As a new organization, we have a number of challenges to address, and I am confident that we now have in place a management structure and internal controls that will guarantee the integrity of this important program."

Copies of the CDFI Fund annual report are available on the department's website under Treasury Report page at http://www.ustreas.gov.

-30-

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

EMBARGOED UNTIL 8:15AM EST
Text as Prepared for Delivery
March 2, 1998

"Building Emerging Markets in America's Inner Cities"
Remarks by Lawrence H. Summers
Deputy Secretary of the Treasury
National Council for Urban Economic Development
Washington, DC
March 2, 1998

Thank you. I'm glad to have this opportunity to speak with you this morning and to be able to thank you for your work in finding new ways to serve America's economically distressed communities and bring low income families into the mainstream. I spend a lot of my time working to make the global capital market work effectively so that investment, capital, information and know-how flow freely to the places where they can be most effective in creating wealth and opportunity. And there is no more important capital market than the market here at home.

I. An Historic Challenge

Your work in these issues is of special importance right now, for three reasons.

First, it is a special moment for the American economy:

- unemployment and inflation are among their lowest in a generation;
- our rate of national savings, though still too low, has doubled in five years -- from 3.4 percent in 1992 to 7.2 percent;
- we are investing ever larger amounts in American companies and their workers;
- real wages and household incomes have at last started to catch up the ground that had been lost since the 1970s;

RR-2262

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

- and, lest we forget, the budget deficit is no more.

As a result of the deficit reductions we have seen in this decade, more than one trillion dollars in capital that would otherwise have been invested in the sterile asset of government paper has instead been invested in America's future: in our productive businesses, in our workers, in our cities and in our homes.

The second reason why your work is especially important today follows from the first. For, when the competition in international markets was less intense, when the economy was not growing as fast as it should have been -- in those days it was all too possible to leave untapped the human and economic resources of our inner cities. The same cannot be said today.

Now that American companies must work to preserve their new edge in global markets, now that issues of capacity and full employment has become more important -- unleashing the buried talent and productive capacity of these areas is not just a moral necessity but an economic one. Our country has to worry about emerging markets. But none are more important than the emerging markets within our own borders.

A third reason why your efforts are so important today relates to the much greater appreciation we now have today, in America and across the world, of the private sector as the greatest contributor to growth. 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." Propositions become cliches because they capture truth; a hand-up really *is* better than a hand-out.

Since 1996 this nation has been following a fundamentally different approach to welfare policy than we have for a very long time. Over time we will see the results of this experiment. While this change is controversial, no-one can disagree with the idea that at a time when we are putting new stress on the importance of self-reliance among the poor it becomes even more critical to increase the scope for economic opportunity in the districts where these people live.

II. A Many-Sided Approach

A decade or two ago it would have been unlikely that a senior Treasury official would be addressing a group such as this one. But I hope to have already made clear why a concern about the future of our economy mandates a concern about the future of our inner cities and other disadvantaged communities. At Treasury we know that a more inclusive America will be a richer, more productive America. And we know that finance is a key tool for achieving that goal.

In a minute I will be describing three important pieces of our strategy. But it might be helpful to start with a little about the rationale for these initiatives.

There are some who wonder why the Treasury -- or any other part of government, for that matter

-- should be seeking to intervene in this way. Surely, they ask, if there are viable investment and lending opportunities in these communities the market will find them by itself? Yet experience suggests that it will not.

The world over, private financial markets fail when it comes to very poor. You could say that mainstream banks do not seek out poor communities -- because that is not where the money is. Market psychology and other barriers tend artificially to restrict the flow of capital to certain neighborhoods or to minority groups, creating clear market failures. Yet if you deprive the people of these districts of the chance to lend or save and they are a good deal more likely to stay that way. The First Lady likes to say it takes a village to raise a child. Equally it takes capital to build a successful village.

Since the earliest days of this Administration we have been working -- domestically and internationally -- to democratize the access to capital. And our largest contribution to improving capital access in America has come through our greatly enhanced commitment to the Community Reinvestment Act .

A Revitalized CRA

America does much to help its banks. And it is right that they help America. That is why we have worked vigorously to promote an effective CRA and to promote fair lending in every part of this nation. We have stood firm against attempts to undermine the CRA -- it has become a real, but unsung, success story.

Since 1992, nonprofit community groups estimate that the private sector has pledged to make more than $270 billion in CRA loans -- which is fully 85% of the loan commitments made since CRA was passed in 1977. In 1996 alone, large commercial banks made nearly $18 billion in community development loans. All told, community development loans by national banks have more than quadrupled in the past four years.

David Coulter, the CEO of BankAmerica Corporation, San Francisco reported recently on the success of community reinvestment programs that BofA has developed and applied, both nationally and in niche markets. Neighborhood Advantage, a system of low-and moderate income home loans has been particularly successful at helping to infuse capital into distressed communities. Since 1990, BofA has profitably lent more than $10 billion as part of the program to borrowers in communities across the western United States. And Bank of America is hardly alone. With the prompting provided by the CRA and the Home Mortgage Disclosure Act, mainstream banks across the country have developed -- and made money from -- similar schemes.

We have seen recently in New York, and other major American cities, that even small steps -- the mending of a window, the planting of a garden, the repainting of a graffitied wall -- can yield huge dividends in reduced crime rates and other benefits. The same applies, many times over, to the families that are finally able to put a down payment on a new home. In community after community, we are learning what increased home-ownership can do to foster a sense of pride and belonging in some of the poorest neighborhoods in the land.

As has been highlighted in the President's National Initiative on Race, race is a major problem. America continues to face deep racial problems. But we can take profound satisfaction in the great improvements in access to capital for minorities that has been achieved through enhanced scrutiny and transparency under the Home Mortgage Disclosure Act.

Data for 1996, produced as a result of that Act, showed that since 1993, conventional home mortgage lending to African Americans has increased by 67.2 percent, lending to Hispanics has risen 48.5 percent, and lending in low and moderate income areas is up 37.9 percent. All this, in a period in which the entire market grew only 18 percent.

It is possible to glean in all of these figures a new paradigm in community regeneration strategies -- one that is less government-driven, more collaborative and creative. Truly it might be said that a quiet revolution has been underway in the approach taken to these areas. Public sector and nonprofit organizations are working shoulder to shoulder with mainstream banks and other financial institutions to bring affordable credit and private sector investment to distressed districts and transform their prospects.

The CDFI Fund

Yet, inevitably there are thing that banks will have trouble doing. This is especially true of those early investments in new markets, or forgotten communities where the social returns can be particularly large relative to the private ones.

Throughout our history the government has been a force for innovation in pushing back the frontiers of American financial markets. As Eugene Ludwig, the Comptroller of the Currency, recently pointed out, if the credit terms of 1776 still applied in today's Washington, only a handful of people would qualify for a bank loan. Even 125 years ago, it was more or less unheard of for national banks to offer home mortgage loans. The pioneering efforts of the FHA led to the home mortgage industry we know today. More recently, we at Treasury have continued that tradition of innovation in issuing the first inflation-indexed bonds.

In his 1992 Presidential campaign Bill Clinton championed another new idea -- the notion of a network of financial service institutions to expand access to credit and financial services in lower income urban, rural and Native American communities. And with the Community Development Financial Institutions Fund the President's vision is becoming a reality. Investments are flowing to communities and making a difference in the lives of low income families.

A successful CDFI is perhaps best compared to a niche venture capital firm that deploys its superior knowledge of an emerging market niche to invest and manage risk better than other investors. CDFIs are often "early birds" or "market scouts" who see the market potential of overlooked customer segments. But there is a clear market test involved. Like other frontier investors, CDFIs cannot survive unless they find paying customers. They must make loans and investments that are repaid. And, in the end, they must aim to be supplanted. By definition, CDFIs' customers are not yet fully served by the market. But the end goal is always to change the psychology of the marketplace to catalyze more investment by the private sector.

Thus far, the Fund has made two rounds of awards under the BEA and CDFI programs. In the CDFI Program, 80 CDFIs, including national intermediaries, have been awarded over $75 million in grants, loans, equity investments and technical assistance. The CDFI awards will be leveraged 3-4 times in the short term alone.

In the BEA Program, the Fund has made 92 awards worth $30 million to insured depository institutions who have increased their investments in CDFIs or increased their direct lending and other services to low income communities. These institutions have provided over $130 million in assistance to CDFIs and $143 million in direct assistance to distressed communities. The third round of awards will be made this year, and the Fund is also launching a training and technical assistance round to help further build capacity in the field.

Like any other new institution, the CDFI Fund has had its share of growing pains. I am happy to say that the Fund was recently given an unqualified audit for its activities since inception. That audit confirmed, however, that there were material weaknesses in the Fund's financial oversight in previous years -- weaknesses that the Fund has already taken steps to correct. I am convinced that the CDFI Fund is now well positioned to build on the vital progress it has already achieved in some of the poorest communities in the land.

A few individual case studies tell the story better than any statistics:

- Nancy Stratton, of Port Hadlock, Washington, used a loan in 1996 from the Cascadia Revolving Fund, a Seattle-based CDFI, to open her in-home day care center. Cascadia has received a $600,000 grant from the CDFI Fund to broaden its service to low-income people like Nancy throughout Washington and Oregon.

- or there is the single mother of three in Charlotte, North Carolina who recently moved to escape an abusive spouse and found it impossible to service the debts caused by her children's past medical expenses on her modest salary as a teacher's aide. The School Workers Federal Credit Union was able to arrange a debt consolidation loan and help her manage her debts -- to the point where she has now been able to make a $1500 down payment on a house. Thanks to the $150,000 grant from the CDFI Fund it received last year, this Credit Union is now poised to help many others work their way out of debt.

This year, to build on these and countless other successes, we will be seeking to pass legislation in the Congress to extend the Fund's authorization and increase its appropriation, from $80 million in FY '98 to $125 million in FY '99. We will be pursuing both of these simultaneously.

The Fund's enabling legislation authorized appropriations for the Fund through FY '98, and we will be seeking permanent extension of that authorization. In addition, we will be seeking changes to permit the Fund to launch a new program to support state-run Capital Access Programs that match loan loss reserves set aside by financial institutions to enable them to make more difficult small business loans. We believe that this is an important new initiative that will be a real benefit to financial institutions, small businesses, and states.

We will shortly be submitting this legislation to the Congress. Later this week, the VA/HUD appropriations subcommittee in the House will hold hearings, and next week, the Senate subcommittee will hold hearings. Hearings in the authorizing committees will follow.

Let me be clear: both the extension of the Fund's authorities and the $125 million appropriation are top Treasury priorities. The CDFI Fund is a sound investment for America's communities, and we urge Congress to give it full support. No good business idea or budding entrepreneur should fail simply because they could not get a loan.

Targeted tax incentives

Capital access is very important. But there also have to be the right kind of incentives to obtain and use capital. That is why a third important piece of our strategy to revive the power of the market for low-income families and communities has been the use of targeted tax incentives. Briefly, since 1992 we have proposed and enacted:

- a new "brownfields" tax incentive to help spur the private sector to clean up and put back into productive use environmentally contaminated properties in distressed communities;.

- two rounds of Empowerment Zones and new incentives to invest in our Nation's Capital;

- special wage credits for hiring those who have the hardest time in the labor force particularly families coming off welfare;

- and we made the low income housing tax credit permanent, helping to create 80-90,000 units of affordable housing every year.

Since the President made this credit permanent in 1993, states have put in place improved allocation systems and demand for the credits has soared. As a result the credit's efficiency has improved by 38%, and demand outstrips supply by 3 to 1. In the Presidents' FY '99 budget we have proposed expanding the low income housing tax credit by 40 percent, which will mean another 180,000 units of affordable housing over the next five years.

III. Concluding Remarks -- the Challenge Ahead

All of these initiatives -- an expanding and innovating CDFI Fund, a more focused CRA, and our carefully targeted tax incentives -- are the vital microeconomic counterpart to the sound macroeconomic policies we have pursued these past five years. Both are aimed at the same core goal: bringing more economic opportunities and higher living standards to every American.

Our commitment to sound policies, both at the macro and a micro level has already paid important dividends in some of America's most disadvantaged communities. But we must do more. And we must work together to do it. Our efforts can help jump start growth in your communities, but only if we have partners like you. Your organizations make the critical difference in community after community across the country. I applaud your hard work, and your success. Thank you very much.

--30--

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

EMBARGOED UNTIL 1 P.M. EST
Text as Prepared for Delivery
March 2, 1998

TREASURY ACTING FISCAL ASSISTANT SECRETARY DONALD V. HAMMOND
HOUSE GOVERNMENT REFORM AND OVERSIGHT SUBCOMMITTEE ON
GOVERNMENT MANAGEMENT, INFORMATION AND TECHNOLOGY

Mr. Chairman, Mr. Kucinich, and members of the subcommittee, thank you for the opportunity to appear today to discuss the Government Waste, Fraud, and Error Reduction Act of 1998. Treasury is committed to improving debt management for the government and welcomes this opportunity to provide our views. I also would like to thank the subcommittee for its continued interest and commitment toward improving Federal debt collection practices. I should note that the process of implementing debt collection is a challenging one. The Department is working diligently to collect what is due, but we must realize the complexities involved and that we can only act to maximize what we collect.

Attached to this statement, is a section by section commentary on the February 17, 1998 discussion draft of this legislation. At this hearing, the Department of the Treasury intends to limit its comments to portions of this legislation that substantially impact Treasury missions and operations. This hearing provides an excellent opportunity to explore those areas where legislative initiatives could help in meeting the goal of improving the collection of delinquent nontax debt owed to the Federal government.

Treasury believes that certain provisions of this proposed legislation will assist the government in complying with existing statutes to recover non-tax delinquent debt. However, there are also provisions that may prove controversial, have perverse effects or be operationally difficult for the government to administer. The implementation of the Debt Collection Improvement Act is designated as a Presidential Management Priority as part of the President's FY 1999 budget submission to Congress.
RR-2263

This designation strengthens the implementation of the Debt Collection Improvement Act by coordinating governmentwide compliance, and reporting of that compliance with the Office of Management and Budget. Accordingly, the Treasury Department views implementation of the DCIA as a top priority and is working with OMB and the other Federal agencies to ensure successful implementation.

I am pleased to share with you highlights of our analysis of the proposed Government Waste, Fraud, and Error Reduction Act of 1998. This legislation proposes to amend the Prompt Payment Act. The Prompt Payment Act requires executive departments and agencies to pay commercial obligations within specified discrete time periods and to pay penalties when those time constraints are not met. The proposed legislation would transfer the responsibility of reporting and administering the Act from the Office of Management and Budget to the Department of the Treasury. Additionally, the amendment is designed to reflect current and future payment environments in which most payments and invoices will be transmitted electronically. This change is designed to encourage agencies to implement innovative payment technology that promotes electronic payments, required under the Debt Collection Improvement Act, and to combine sound business practices with good cash management. Because of the close relationship between the provisions in the Debt Collection Improvement Act, which Treasury is already responsible for implementing, and the Prompt Payment Act, administrative efficiencies will be achieved if this legislative proposal is enacted.

Next, in the area of improving Federal Debt Collection Practices, we support the provisions of the draft proposal that would expand the types of Federal payments available to collect past due child support through Treasury's administrative offset program. Executive Order 13019 provides for the collection of delinquent child support obligations from persons who may be entitled or eligible to receive certain Federal payments by offsetting those payments through Treasury's administrative offset program. The addition of certain Federal benefit payments to those Federal payments already available for offset is consistent with the goal of promoting the health, education, and well being of children.

In general, we support provisions of the draft proposal that further our goal of relying on the experience and expertise of private sector professionals to provide debt collection services to Federal agencies. However, we are concerned about provisions that would preempt state law in this area, and we believe that such preemption should not be enacted before fully evaluating the impact on state law and commercial practices. I refer the committee to our specific comments on these provisions in the attached addendum.

Having discussed several highlights in the draft legislation which we believe assist our efforts to recover delinquent debts and improve Federal payment systems, there are several components which Treasury would find problematic if enacted. For instance, the proposed legislation rewrites the existing DCIA provision on barring delinquent debtors from obtaining loans to also bar delinquent debtors from obtaining Federal permits or licenses, Federal contracts, and Federal employment. The DCIA already empowers the government with tools to collect the delinquent debts of Federal employees. Continued Federal employment would enable the government to continue recovering delinquent debts from Federal employees. Enactment of this section would ultimately weaken the government's ability to collect these funds and would be difficult to administer. In addition, the absolute prohibition against awarding any Federal permit or license to a delinquent debtor is overly broad and may create serious enforcement burdens. There are many instances where the administration of such a blanket prohibition would not be in the best interest of the government though in specific, targeted circumstances could be a useful tool for some agencies.

Similarly, the subcommittee proposes to eliminate the DCIA provision requiring the Department of the Treasury to issue regulations implementing the administrative wage garnishment provisions of the law. Enactment of this provision, I believe, would delay implementation of the administrative wage garnishment provision of the Debt Collection Improvement Act. Wage garnishment is an action of enormous impact on delinquent debtors. I believe that if Treasury is absolved from constructing governmentwide regulations for administrative wage garnishment, respective Federal agencies will likely see a need to develop their own regulations in order effectively to protect the government's liability. With the resultant proliferation of separate regulations, the result could be a prolonged period of time before wage garnishment can be applied effectively across the government and may not result in uniform application. Further, the Department of the Treasury issued a Notice of Proposed Rule Making on this subject on November 21, 1997 and plans to issue a final rule in April. Thus, we believe this provision is not necessary.

We are also concerned with expanding Federal authorities which impact existing commercial practices. For example, the provision of this legislation that would create a lien on any real property owned by a debtor and thus create clouds on titles throughout the country could significantly and adversely affect the transfer of all real property. This provision may have far reaching implications for the lending community, title companies, and other sectors involved in real estate transactions and we recommend consultation with these affected groups. The creation of a seven year lien may interfere with an agency's ability to write-off debt and report such debts to the IRS as discharged.

Finally, with regard to debt and loan sales, Treasury is in the process of establishing an Office of Privatization to provide guidance to Federal agencies on the appropriate manner to conduct asset dispositions. Treasury believes that a properly administered program of nontax debt sales can be a very effective debt management tool. The provisions of the legislation that would alter the Secretary's existing authority to review the terms of all debt sales and that would require sale of new loans and delinquent nontax debt at certain set time intervals could impede the effective implementation of Treasury's privatization policy. We also note that a mandatory requirement that loans be sold after the lapse of a statutorily prescribed period may serve to encourage delinquencies, as debtors may believe that their opportunity to compromise a debt through negotiations with a note purchaser may increase.

This concludes my remarks. We appreciate the subcommittees' continued interest in the success of Treasury's debt collection efforts and look forward to working together to continuously improve Federal debt collection and payment practices. We also look forward to working with your staffs on this bill, and other draft proposals intended to improve the collection of Federal debts in an environment of public support and improve Federal payment systems. I would be pleased to address any questions you have regarding Treasury's position on the draft legislation.

-30-

ADDENDUM To TREASURY TESTIMONY OF MARCH 2,1998

H.R. _ - Government Waste, Fraud, and Error Reduction Act of 1998 [Discussion draft of February 17, 1998]

Title I - General Management Improvements

Sec. 101 - Repeal of Obsolete Provisions Relating to Financial Statements of Agencies

Comments: We support this technical change and suggest that the proposed bill also strike subsection (h) of 31 U.S.C. 3515 as obsolete.

Title II - Improving Federal Debt Collection Practices

Sec. 201 - Miscellaneous technical corrections

- **(a) Child Support Enforcement**

  Comments: We support the expansion of the Federal payments available to collect past-due child support through Treasury's administrative offset program.

- **(b) Charges by Debt Collection Contractors**

  Comments: This provision would provide clarity and consistency in the fees that may be charged for the collection of debt owed to the Federal government. It would also preempt State laws that might limit the amounts that can be received by federal debt collection contractors. We believe that before any such preemption is enacted there should be consultation with States to assess fully the impact of this provision on State laws and commercial practices. Consistent with Executive Order 12612 issued by President Reagan on October 26, 1987, appropriate officials and organizations representing the States should be consulted in developing national standards that potentially limit the policy making discretion of the States.

- **(c) Background Checks of Contractor Employees**

__Comments__: This provision would shift the costs associated with the performance of background checks from agencies currently paying for them to the private collection contractor, and in turn, to the debtor as the costs associated with the collection of a debt may, in most circumstances, be passed on to the debtor. We therefore support this provision. This section should be modified, however, to ensure that the background check performed by the contractor meets Treasury or other contracting agency standards and that any background checks performed are made available, on request, to Treasury or the contracting agency.

- **(d) Debt Sales**

  __Comments__: We are concerned with the readiness of Federal agencies to comply with a requirement to sell debt and about the role of Treasury in government-wide debt sales in light of initiatives underway by interagency groups such as the Federal Credit Policy Working Group. We are also concerned about the relationship the DCIA provisions on debt sales may have to administration privatization initiatives. We suggest deferral of enactment of this position pending further internal administration coordination on this issue and discussions with interested parties in the legislative branch.

- **(e) Repeal of Requirement to Issue Wage Garnishment Regulations**

  __Comments__: We believe this provision is not necessary and could result in a lack of consistent standards and procedures. Treasury issued a Notice of Proposed Rulemaking on wage garnishment on November 21, 1997 and expects to issue a final rule in April, 1998.

- **(f) Verification of Debtor Employment Information by Private Collection Contractors**

  __Comments__: We believe additional background is needed regarding the impact of this provision on State laws and State commercial practices. As noted in our comments to subsection (b) of this section, consistent with Executive Order 12612 issued by President Reagan on October 26, 1987, appropriate officials and organizations representing the States should be consulted in developing national standards that potentially limit the policy making discretion of the States.

- **(g) Clerical Amendment (Tax Refund Offset)**

  __Comments__: We support this clerical amendment and suggest an additional clerical amendment re-numbering this section which currently has two paragraphs (h)(1).

- **(h) Correction of References to Executive or Legislative Agency**

Comments: We support a correction that would strike "executive or legislative" agency each place it appears and substitute "executive, judicial, or legislative agency." This change has already been accomplished, however, in the specific sections listed in the draft proposal.

- **(i) Correction of References to Federal Agency**

  Comments: Changing the term "Federal agency" to "agency" does not provide needed clarification on what is meant by the term "Federal agency." For purposes of consistency and clarity, we suggest changing the term "Federal agency" to "executive, judicial or legislative" agency where appropriate.

Sec 202 - Barring Delinquent Debtors from Obtaining Federal Loans

Comments: We suggest that input be obtained from the Department of Justice (DOJ) regarding the impact this provision would have on other laws that govern Federal contracts and Federal employment. Denial of Federal employment to a delinquent debtor may, on the one hand, motivate the debtor to pay and is consistent with a desire not to reward those who owe delinquent debt with Federal employment. On the other hand, Federal employment of an otherwise qualified individual who owes a debt would provide a readily available source of repayment. In the area of denial of licenses and permits, we are concerned that the language may be too broad and thus difficult to administer. For example, it may not be beneficial to enforce this provision against an individual seeking a permit to enter a national park. We suggest a requirement that standards be issued by Treasury under which agencies could determine whether imposition of such a bar would be in the best interest of the government.

Sec. 203 - Collection and compromise of nontax debts

- **(a) Use of Private Collection Contractors and Federal Debt Collection Centers.**

  Comments: The requirement for Treasury to refer debt to the person(s) most successful in collecting the type of debt may impose unreasonable burdens because of the difficulty of making such a determination in particular cases. It would also conflict with the requirement to maintain competition. We suggest that such success be a factor to be taken into account in determining the person most appropriate to collect the debt.

  Administrative costs are generally borne by the contractor and built in to the contract price.

  We support giving States the option of requesting that Treasury refer child support debts to private collection contractors.

- **(b) Limitation on Discharge Before Use of Private Collection Contractor or Debt Collection Center**

  Comments: If this section is directed at the actions the Financial Management Service or other government debt collection centers must take before terminating collection action on a debt, we suggest adding referral to the Department of Justice as an alternative prior to terminating collection action. If this section is directed at creditor agencies, it may be too broad in that it does not exclude debts that are exempt from cross-servicing, for example, debts in litigation or foreclosure. One way to narrow the scope would be to exempt debts that are exempt from cross-servicing. We also suggest clarification of what is meant by "termination."

Sec. 204 - Wage Garnishment

Comments: We suggest that input be obtained from the Department of Labor regarding the impact of this proposal on the anti-alienation provisions of the Employee Retirement Income Security Act (ERISA) (29 U.S.C. 1056(d)) and other laws and policies relating to pension plans. It may be prudent to gain some experience administratively garnishing wages before this authority is expanded.

Sec. 205 - Establishment of Liens

Comments: We believe this provision should be given further study because it could have extraordinarily far reaching and disruptive consequences for the lending community, for title companies, for property owners and for others involved in real estate transactions. Such a provision could potentially create clouds on title to real property throughout the country and create significant burdens for affected parties. Additionally, the creation of a seven year lien may interfere with an agency's ability to write-off debt and report such debts to the IRS as discharged.

Title III - Sale of Debts Owed to United States

Sec. 301 - Authority to Sell Debts

- **(a) Sales Authorized**

  Comments: We believe that the provision requiring agencies to "maximize the proceeds" from sales is unnecessary, may create a basis for unsuccessful bidders to raise protests to sales, and may place unintended limits on creative sales vehicles. We suggest that the language give agencies discretion to conduct sales in the manner the agency determines to be most appropriate, and shall give consideration to whether the manner chosen will maximize proceeds.

Sec. 302 - Requirement to Sell Certain Debts

Comments: We believe that a mandatory requirement to sell debt at a statutorily specified time after a loan is disbursed, whether or not the loan is delinquent, would not be in the best interest of the United States and may in fact encourage delinquencies. For example, purchasers may bid less for debts that they know the government is under a mandate to sell. Some debts, such as Department of Education student loans, may increase in value over time and thus an early sale may not result in the greatest return. We are also concerned that mandated sales would not allow sufficient time for Federal agencies to fully pursue the collection tools available to them. Aggressive implementation of the collection tools available to Federal agencies, such as wage garnishment and administrative offset, may result in greater receipts than sale. Additionally, a requirement for mandatory sale could create a perverse incentive for debtors to allow their debts to become delinquent in the hope that the obligation may be sold at a discount to a purchaser who would have an incentive to compromise. Furthermore, if these provisions are applied to debt under the U.S. government's foreign assistance programs, they could hamper recognition of the U.S. foreign policy concerns, as well as efforts to maximize debt collections in the long run.

Finally, it is premature to mandate such provisions, especially pertaining to the sale of performing loans, until the administration has more time to determine how these requirements would be part of the broader privatization strategy.

Title IV - Treatment of High Value Debts

Sec. 401 - Annual Report on High Value Debts

Comments: Clarification is needed regarding whether or not this requirement is limited to high value debts in a delinquent status and this provision should exclude tax debt.

Sec. 402 - Debarment from Obtaining Federal Loans

Comments: We believe this provision is unnecessary as Section 3720B already bars delinquent debtors from loan eligibility regardless of the amount of the debt.

Sec. 403 - Inspector General Review

Comments: Clarification is needed regarding whether this is limited to delinquent high value debt, and as to the relationship between this provision and the requirement that agencies seek approval from DOJ on all compromises of debt in excess of $100,000. Additionally, this provision should exclude tax debt.

Sec. 404 - Requirement to seek seizure and forfeiture of assets securing high value debts

Comments: We are concerned that there may be circumstances in which prompt seizure and forfeiture of collateral would not be desirable (e.g., environmentally damaged property). Additionally, we have concern about how this provision would tie in, if at all, with sec. 206, which provides that a delinquent debt establishes a lien on the debtor's real property. In addition, the use of the term "forfeiture" raises serious questions about its relationship to the asset forfeiture laws employed in connection with drug and money laundering enforcement. We therefore would strongly suggest consultation with the Department of Justice.

Title V - Federal Payments

Sec. 501 - Transfer of Responsibility to Secretary of the Treasury with Respect to Prompt Payment

Comments: We support this transfer of responsibility. Treasury already has a significant role in implementing the Prompt Payment Act. This would provide Treasury with the flexibility to conform prompt pay requirements to new payment technologies.

Sec. 502 - Promoting electronic payments

Comments: These amendments would provide needed flexibility to promote innovative payment technologies. However, a provision requiring vendors to pay interest is not necessary and could create an administrative burden on agencies.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
Text as Prepared for Delivery

Remarks of John D. Hawke, Jr.
Under Secretary of the Treasury for Domestic Finance
to the National Association of State Treasurers
Hyatt Regency Capitol Hill
March 2, 1998

I am delighted to be with you today. We at the Treasury Department have an important community of interest with State Treasurers, and it is important that we continue to have open and forthright discussions about the many issues of mutual interest that we deal with.

Today I want to talk to you about our efforts to implement a law that was passed by Congress in 1996 that will have profound implications not only for the way in which the federal government makes its payments, but ultimately for the states as well. We call it EFT '99.

The law itself is disarmingly simple: It requires that beginning January 1, 1999, the federal government make all of its payments, other than tax refunds, electronically. To further this mandate it requires that all new recipients of federal payments (again, excluding tax refunds) who have bank accounts and who come on stream after July 26, 1996, receive their payments by electronic funds transfer (EFT).

The law also imposes some significant responsibilities on the Secretary of the Treasury. It directs the Secretary to develop standards and rules for hardship waivers from the mandatory requirements of EFT '99, and it further directs him to ensure that individuals who are required to receive their payments electronically have, for that purpose, access to an account at a financial institution at reasonable cost and with the same consumer protections as other account holders.

In September of 1997 we published for comment a proposed rule to implement EFT '99 that addresses many of the issues raised by the new law.
RR-2265

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

During the comment period we held public hearings in four cities, and by the close of the period we had received over 200 written comments on our proposal. While time does not permit me to discuss all of the issues and comments, I would like to share with you our present thinking on two key issues: waiver policy and account access.

In considering waivers, we wanted to be responsive to two conflicting considerations: First, we recognized that there will be a great many perfectly legitimate reasons for exempting recipients from the requirement of mandatory EFT. A heavy handed implementation of the mandate could not only impose significant hardships on individuals, but could very quickly undermine the base of support for the program. On the other hand, excessive liberality in the granting of waivers could significantly vitiate the tremendous cost savings for the public that we expect from the implementation of EFT '99.

With these thoughts in mind, we proposed the following:

- For individuals who became eligible for Federal payments before July 26, 1996 and who have an account at a financial institution, the requirement to receive payments by EFT will be waived if such a requirement would impose a hardship due to a physical disability or geographic barrier.

- Individuals who do not have bank accounts, and who will be provided access to an account by Treasury, will have an additional basis for a waiver if using such an account would impose a financial hardship. In order to assure access to an account, we are providing a time-limited waiver for all such individuals, until the earlier of January 1, 2000, or the date on which Treasury determines that such an account is ready to be made available to them.

- Federal agencies will not be required to use EFT when political, financial, or communications infrastructure does not support payment by EFT in certain overseas locations.

- Finally, waivers will be available where a cost-benefit analysis does not justify making small or non-recurring payments by EFT and where EFT payments would conflict with military, law enforcement, or national security interests.

A great many of the comments we received in the rulemaking addressed the question of waivers, and we are giving careful attention to the scope of the waiver provisions in connection with the development of the final rule. I think it is safe to say that our guiding principle will be liberality. We do not want to cause disruption, inconvenience, or financial hardship to payments recipients, a great many of whom are seniors who are not familiar or comfortable with new banking technology. We firmly believe that in the future the population of payments recipients will be more and more comfortable with EFT, and that our long range objective of moving from paper to electronics will be realized in the fullness of time.

This is borne out by our experience with those recipients who have newly come on stream since July 1996. Since that time over 85% of all new Social Security annuitants have signed up for direct EFT payments, reflecting a high degree of acceptance of the program.

We also face a daunting challenge in fulfilling our mandate to assure access to an account at a financial institution for all EFT recipients. The major challenge here is how to serve the "unbanked." We estimate that more than 10 million recipients of federal payments do not have bank accounts. How do we assure that these Americans will be able to realize the benefits of EFT?

The ideal, of course, would be a competitive marketplace in which financial institutions throughout the country offered low-cost electronic accounts that could be used to receive and access federal EFT payments. While we see some interest among banks in offering such an account, the availability of such accounts is not yet so widespread that we can rely solely on private initiatives to satisfy our mandate.

Accordingly, we propose to design such an account -- we call it the Electronic Transfer Account, or ETA -- and to engage a number of banks to offer the account in defined regions of the country. We will ask banks to bid on specifications that we will prescribe, and their bids will be framed in terms of the monthly fee they will charge recipients to use the ETA. While we have not yet fixed the design of the account -- and will not do so until we have given the public an opportunity to comment on a specific proposed design -- I think it is safe to say that it will be an all-electronic account that will receive only EFT deposits, and from which withdrawals can be made by debit card through ATMs or at points of sale. We expect that within the scope of the monthly service charge there will be a specified number of withdrawals that can be made without additional service charge. Beyond this we are still considering whether other features should be added.

Once again, we see somewhat conflicting pressures here. On one hand, the ETA has great potential to serve as a vehicle for introducing the unbanked to mainstream financial services. For this reason we have been urged to add other features of conventional bank accounts, beyond the basic functions of receiving and accessing payments, such as a means for making electronic third-party payments or a means for accumulating savings. On the other hand, the more "bells and whistles" we add to the ETA, the greater the cost is likely to be for all ETA holders, including those who do not want anything beyond the basic function of the account. In addition, the more attractive we make the ETA, the greater the potential it has to draw existing accounts out of the private banking system. This could serve not only to stifle development of competitive alternatives, but would raise understandable concerns about competition from the federal government.

One thing has become eminently clear from the work we have done to date on EFT '99: there is a great need to educate the public about the enormous benefits of EFT. I firmly believe that as payments recipients come to appreciate the safety and convenience of EFT they will actively seek out suppliers of accounts that will meet their needs. To this end we have initiated an extensive public education campaign to communicate to our recipients the desirability of converting to electronic payments and to inform them about the ETA and their other choices under EFT '99.

We are urging banks to launch their own education efforts, because we believe there is an enormous untapped market out there, comprised of more than 10 million Americans who have a regular source of income, but for whom the costs of a conventional paper-based bank account are disproportionately high.

It also seems clear to me that the EFT '99 initiative has important implications for the states. You, as do we, make millions of payments each month -- salary payments, retirement and other benefit payments, vendor payments, and the like. As you well know, there are tremendous costs savings available from EFT. We estimate that the cost of making a paper payment is 43 cents, while an EFT payment costs only two cents. As the population of federal payments recipients becomes more and more accustomed to EFT as the result of our implementation of EFT '99, there will undoubtedly be spillover benefits for the states. EFT '99 not only provides an "ice-breaking" model for the states to adopt legislation moving their own payments programs to EFT, but as the ETA takes hold as a prototype for a basic electronic banking service, it will also offer a vehicle for the states.

--30--

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
Remarks as Prepared for Delivery
March 2, 1998

SECRETARY ROBERT E. RUBIN
REMARKS BEFORE THE INSTITUTE OF INTERNATIONAL BANKERS

It is a pleasure to speak with you today. I would like to discuss a topic that I know is very important to all of you as the representatives of global financial institutions; and that is, the issues around the global financial system, both in the short term as we address the current crisis in Asia, and over the longer term as we build the architecture to help prevent future financial crisis, and better manage them when they occur.

To begin, it is important to put the efforts to strengthen the global financial system in the context of the development of the international financial markets and the global economy. I witnessed these developments closely when I was in investment banking and I know that all of you all have lived this in your own firms. Here in the United States, over the last 20 years, many businesses have gone from being predominantly domestic to being true global entities, and developing countries have gone from having little impact on our economic well being to absorbing over 40% of our exports. However, just as these developments have brought great opportunities, there have also been new risks, as we saw in Mexico in 1994 and now in Asia. I believe that the economic well-being of all nations in the global economy in the years and decades ahead will be very much affected by our ability to make the most of those opportunities and to effectively manage the risks.

The interdependence of today's global economy has been brought home to all of us by the recent situation in Asia. As you well know, financial instability in Asia has potential impacts for economies around the world by weakening the affected countries' currencies, which affects the competitiveness of companies outside the country, and the countries' ability to buy foreign goods and services. Moreover, if the problem were to spread to developing countries around the globe, the potential impact could be much more severe. By doing everything sensible to help these countries get back on track, we're obviously helping these countries, but at the same time we are very much protecting and promoting our own interests, by reviving these countries as markets for exports, by promoting stronger currencies in these countries, and by enormously reducing the probability of a contagion that could so severely impact all of us.
RR-2266

As we consider how to deal with the crisis, it is important to remember one common element: In each country where crisis has occurred the financial crisis was either triggered by, or exacerbated by, flaws in the financial sectors of the affected nations. Although circumstances obviously vary in individual countries, all had close links between governments, banks and corporations which led to fundamentally unsound investments by corporations financed by unsound lending by banks. Moreover, financial systems had inadequate financial regulation and supervision, financial institutions lacked transparency, which masked the extent of the problem, undercutting the effectiveness of market discipline. In short, the essential underpinnings to a modern financial system were either weak relatively nonexistent. These conditions existed at a time when vast amounts of capital flowed into these countries -- arguably with a serious underweighting of the risks involved -- and the combination of these vast flows of capital and badly flawed financial sectors proved to be combustible.

That is why the focal point of efforts to restore financial stability in these countries, led by the IMF, has been each nation's financial sector, and other structural reforms. These are not austerity programs.

The fundamental objectives of these reforms are to restore financial stability and confidence, attract new flows of capital, restore economic growth and promote stronger and more stable exchange rates. While financial assistance may be critical to provide the necessary breathing room for these nations, the key is for nations to implement internal reforms.

We have a long way to go and a great deal to do before we can feel secure that the period of instability is over and these countries are back on a path of solid growth. However, the countries in the region have great underlying strengths, such as high savings rates, a strong work ethic and a commitment to education, and, combined with the reforms, that should provide the basis for a successful resolution over time. In our view, Thailand and Korea are implementing reform and are on a constructive path, with both Korea's new President Kim and the now several months old new government of Thailand giving all indications of strong commitments to reform. The Indonesian situation has been more complicated, but in all three countries, the answer is the same: sustained adherence to reform programs that will remedy problems and restore confidence. The other key in Asia is Japan, and, as we discussed at the G-7 finance ministers meeting in London, a return of domestic demand led growth and confidence in Japan, through pursuit of appropriate policies, could contribute greatly to the recovery in Japan's Asian neighbors, and Japan's failure to accomplish these objectives is a major impediment to Asia's recovery.

Even if we work to solve or to deal with these immediate problems in Asia, we are very much focused on the question of the longer-term architecture in the global financial system, both to better improve prevention and to better deal with crises when they occur. The global economy and the global financial markets, as you well know, have grown very rapidly in recent years and have become far more sophisticated.

At the same time, however, the institutions that were created 50 years ago at Bretton Woods to deal with the issues of the global economy and the global financial markets, have changed far less.

It is our view that the architecture needs to become as modern as the marketplace. At Treasury, we have been working very intensely with the Federal Reserve Board on these enormously complex issues, and we've been working with finance ministries and central banks around the world to start to build international consensus. These are deeply complicated problems, and major steps forward will take time. Having said that, in our view, it is absolutely necessary that those major steps take place.

We will be looking at changes in the architecture within the context of six objectives: promoting more efficient global markets; increasing disclosure and transparency; strengthening financial systems, both globally and in individual economies; improving domestic policy management; rethinking the role of the international community in financial crises; and appropriate burden-sharing by the private sector. Let me say a few words about that last point, which is often approached through the prism of moral hazard.

We believe, that investors and creditors should bear the full consequences of their actions. And as you know, in Asia numerous banks, investment banking firms and others, have taken or will be taking enormous losses as a result of the instability and the problems in that part of the world.

Having said that, as a by-product of the program to restore financial stability, some creditors will may be shielded in some measure from the full consequences of their actions and addressing this issue as fully as practical is a high priority for us as we work to strengthen the future architecture.

Let me now turn to two, what I would call micro domestic issues, that are of interest to your institutions. Our efforts to strengthen financial systems have not centered solely on countries elsewhere. We have been working hard to strengthen our own domestic financial sector as well. As you know, the Treasury has put forward a financial modernization proposal that would remove outmoded barriers to competition in financial services, and permit banks, securities firms and insurance companies to affiliate with one other. I think most would agree that these reforms are long overdue.

Within the context of removing financial barriers, however, we also strongly believe financial institutions should be able to choose the organizational structure that best meets their business needs. This means, for example, that banks should be able to conduct their full range of financial activities through either a subsidiary of the bank or an affiliate of a bank holding company.

While I cannot say for certain what may happen this year on the Hill, I think it is very important that Congress work through the competing interests surrounding this issue and develop sound, forward-looking legislation -- which will benefit consumers, businesses and communities around the country.

We are also keenly focused on the computer problems associated with the year 2000, an issue of enormous importance for financial service firms around the globe. Because of the increased integration of the world's economy, the Bank for International Settlements is concerned that problems in a single location could rapidly affect others if payments fail to move as expected.

In the United States, financial regulators are working closely with the private sector in order to reduce the potential for major systemic failures due to the year 2000 problem. The SEC now requires public companies to disclose material year 2000 computer problems in their public statements. Bank regulators review each bank's year 2000 implementation efforts during routine inspections, and have already taken several enforcement actions against institutions that have failed to take appropriate steps to deal with the problem.

I think there is room for concern, however, based on numerous anecdotal reports about the lack of progress with respect to the year 2000 issue in many other countries, including some advanced industrial nations. In order to urge other countries to address this matter in a systematic fashion, I have raised the issue with my colleagues in the G-7 and elsewhere and the matter will be part of the G-7 Birmingham summit agenda when we meet in May. But governments alone cannot not solve the problem, and I support each of you to urge your home offices to consider whether existing year 2000 implementation efforts need to be augmented in the coming months.

Before I conclude, let me emphasize that the international financial service firms that you represent will have important roles to play in building an international financial system for the 21st century. When you establish a presence in a developing country, you bring in experience, expertise, and new capital, which helps strengthen its financial sector. At the same time, your experience and expertise can be applied to how these nations develop regulatory systems and the other underpinnings of a modern financial sector which I mentioned earlier. It is in your interest to help these nations build stronger financial sectors, much as it is in the interest of the countries themselves and of the overall global economy.

In conclusion, let me go back to something I said earlier. The global economy offers immense opportunities for businesses and workers around the globe, but also contains risks. Working to make the most of those opportunities, while effectively managing the risks, must be a high priority for all of us in the private and public sectors. The task before us is complex and difficult. But by working together on these issues of immense importance to the international financial system, we will promote a healthy global economy in the years and decades ahead to the benefit of all of us. Thank you very much.

-30-

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
March 02, 1998

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Term:	91-Day Bill
Issue Date:	March 05, 1998
Maturity Date:	June 04, 1998
CUSIP Number:	9127946R0

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate 1/	Price
Low	5.120%	5.258%	98.706
High	5.120%	5.258%	98.706
Average	5.120%	5.258%	98.706

Tenders at the high discount rate were allotted 58%.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 43,687,943	$ 5,129,448
Noncompetitive	1,355,441	1,355,441
PUBLIC SUBTOTAL	45,043,384	6,484,889
Federal Reserve	4,284,955	4,284,955
Foreign Official Inst.		
Refunded Maturing	823,000	823,000
Additional Amounts	0	0
TOTAL	$ 50,151,339	$ 11,592,844

1/ Equivalent coupon-issue yield.

RR-2267

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
March 02, 1998

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Term:	182-Day Bill
Issue Date:	March 05, 1998
Maturity Date:	September 03, 1998
CUSIP Number:	912795AH4

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate 1/	Price
Low	5.110%	5.318%	97.417
High	5.125%	5.334%	97.409
Average	5.125%	5.334%	97.409

Tenders at the high discount rate were allotted 65%.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 31,467,739	$ 3,934,819
Noncompetitive	1,107,205	1,107,205
PUBLIC SUBTOTAL	32,574,944	5,042,024
Federal Reserve	3,535,000	3,535,000
Foreign Official Inst.		
Refunded Maturing	2,242,000	2,242,000
Additional Amounts	0	0
TOTAL	$ 38,351,944	$ 10,819,024

1/ Equivalent coupon-issue yield.

RR-2268

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

EMBARGOED UNTIL 10:30 A.M. EST
Text as Prepared for Delivery
March 3, 1998

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

Mr. Chairman, members of this Committee, it is a pleasure to appear before you today to discuss funding for the International Monetary Fund in the context of U.S. leadership in the global economy and the situation in Asia. I would also like to bring you up to date on the international response to the crisis and our efforts to modernize the architecture of the international financial markets to better prevent financial crises, or better manage them should they occur.

Mr. Chairman, as you well know, we live in a new era of the global economy and global financial markets. Twenty years ago, the vast majority of our businesses were predominantly domestic. Now many are global entities. Developing countries have gone from having little impact on our economic well being to absorbing over 40 percent of our exports. Our leadership in international financial institutions such as the IMF has played a key role in these developments that have contributed so much the economic well being of our workers, farmers, and businesses.

But with the opportunities have come risks. Strong and effective U.S. leadership on the issues of the global economy is essential if we are to make the most of these opportunities, and effective manage the risks; and whether or not we provide that leadership will profoundly affect our national economic and security interests in the years ahead.

The need to exercise U.S. leadership in the global economy to protect and promote our interests has been brought home by the recent situation in Asia. We have critical economic and national security interests in Asia. Thirty percent of U.S. exports go to Asia, supporting millions of U.S. jobs, and we now export more to Asia than Europe. In states like California, Oregon and Washington, exports to Asia account for more than half of each state's total exports. Financial instability, economic distress, and depreciating currencies all have direct effects on the pace of our exports to the region, the competitiveness of our goods and services in world markets, the growth of our economy and, ultimately, the well-being of American workers. Moreover, if the problem were to spread to developing countries around the globe, the potential impact to our

RR-2269

economy could be severe. By doing everything sensible to help these Asian countries get back on track, we support our exports to the region and help strengthen their currencies, which helps the competitiveness of our goods in world markets and we reduce the risk that financial instability will spread to other developing countries.

In addition, the United States also has critical national security interests in seeing a restoration of financial stability in the region. We have 100,000 troops based in Asia, 37,000 on the Korean peninsula alone. As the members of this committee know well, financial stability and prosperity promotes social stability and peace -- both in Asia and throughout the globe.

The United States has exercised very strong leadership throughout this situation to help resolve the Asian crises. In Thailand, we saw the signs of problems early on and we moved with the IMF to put into place a reform program which the Thai government is currently implementing. In Korea, the situation deteriorated very rapidly and by Christmas the Korean banking sector was on the verge of systematic default. Treasury and the Fed worked together over a very few days to catalyze the participation of banks on three continents to refinance short term loans in order to give Korea breathing room to address its economic problems. In Indonesia, just this week President Clinton has sent former Vice-President Mondale as a personal representative to encourage Indonesia to make the critical reforms necessary to succeed. More broadly, we also have been part of an important international effort to encourage countries outside of the region to put policies in place to limit their vulnerability to crises.

Through all of this, the United States has strongly supported the IMF, as the central institution in the effort to resolve the financial crises in Asia. The IMF programs have been focused predominantly on structural reforms, to address the specific causes of the crisis in each nation. These reforms include reshaping the relationships between banks, the government, and commercial entities; financial sector regulations; trade liberalization; and appropriate monetary and fiscal policies. These are not austerity programs, though they do involve macro-economic policy regimes necessary to regain financial market confidence.

The IMF is the right institution to be at the center of this effort for three important reasons. First, it has the expertise to shape effective reform programs. Second, it has the leverage to require a country to accept conditions that no assisting nation could require on its own. Finally, it internationalizes the burden. Moreover, our contributions to the IMF have not cost the taxpayer one dime in fifty years. When the IMF draws on our commitments, we receive an interest bearing offsetting claim on the IMF of equal value. There are no budget outlays under CBO scoring and no increase in the deficit, or reduction in resources for other spending priorities.

Today we ask you to support two critical requests: an increase in our IMF quota subscription, and U.S. participation in an augmented back-up facility, the New Arrangements to Borrow, to supplement the IMF's resources, if needed, to deal with crises such as this one.

We need this money as quickly as possible, because right now the IMF does not have sufficient funds to deal with a truly major crisis and it is in our economic interest to have that vulnerability exist for as little time as possible. As a result of the recent situation in Asia, the IMF's normal financial resources are approaching a historically low level. At the moment, the IMF has about $45 billion in uncommitted resources, but only $10-15 billion is available because an amount we estimate at $30-35 billion must be held in reserve to accommodate withdrawals by members. In addition, the IMF has access to roughly $23 billion in the General Arrangements to Borrow, for a total of $33 to $38 billion of total lending capacity. To give you a sense of how inadequate that amount could be, in the last six months alone the IMF's commitment in these Asia programs amounted to some $35 billion. The IMF might not have the capacity to respond effectively if that crisis were to deepen, spread to developing countries throughout the globe, or a new crisis were to develop in the near term. Even if the $3.5 billion for the NAB alone is approved, we still remain exposed with the IMF not having sufficient resources to deal with a truly major crisis. The U.S. contribution totaling $18 billion will leverage a total amount of about $90 billion in usable resources. If we don't act, neither the quota nor the NAB will come into effect. However, once we act the rest of the world will act very quickly. At the last IMF replenishment, in 1992, all of the other countries acted within six days of action by the U.S. Congress.

The probability of a serious reversal in the Asia situation and contagion to developing countries around the world, or of a new crisis in the short term, may be small. But, these occurrences are possible and the consequences could be immense. We cannot afford to take the risk that such events could start to unfold and the IMF not have the capacity to try to cope effectively. Again, the full IMF funding is needed now, to protect our interests. Moreover, failure to support fully the IMF now could shake confidence in American leadership in the global economy just at a time when confidence and American leadership are so important in re-establishing stability in Asia.

Some have suggested that we should not advance new monies to the IMF unless it agrees to attach certain conditions to its reform programs. We agree with the importance of many of their objectives. And I believe we can work out constructive measures responsive to them, but there are practical limitations on what can be done.

Mr. Chairman, even as we work to secure this funding and to solve the immediate problems in Asia, we are working to strengthen the architecture for the international financial system. While the global economy and the global financial markets have grown very rapidly and become very sophisticated in recent years, the institutions for preventing and dealing with these crisis has changed far less. We need to make that architecture as modern as the markets. At Treasury, we have been working with the Federal Reserve Board on these enormously complex issues. And we are working to develop international consensus. But, these are deeply complicated problems and major steps forward will take time.

One criticism that has arisen with respect to the international response to the situation is that providing financial assistance to these countries shields investors from the consequences of bad decisions. This, the so-called moral hazard issue, concerns us as well. We do not believe that international efforts to resolve financial crises should protect investors or creditors from the consequences of their actions and as you know numerous banks, investors and creditors have taken or will take huge losses in Asia. However, a byproduct of the international assistance effort may be that some creditors will be shielded from the full consequences of their actions. Addressing this issue is a high priority for us as we work to strengthen the international architecture, but is also extremely complicated.

Mr. Chairman, before I conclude, let me say a few words about the status of the situation in Asia. As a result of U.S. leadership and prompt action by the IMF and other international organizations, the spread of instability to other developing nations was limited after an initial burst. In the countries where instability has occurred, there is a long way to go and a great deal to do before we can feel secure that the period of instability is over and these countries are back on a path of solid growth. The countries in the region have great underlying strengths, such as high savings rates, a strong work ethic, and a commitment to education and that combined with strong reform programs, should provide the basis for a successful resolution over time. Thailand and Korea are on a constructive path of reform -- though there are great challenges ahead -- and that is the best path for Indonesia as well. In the meantime, it is critical that we have an IMF with the capacity to respond further -- or in other developing countries -- if necessary.

Mr. Chairman, as I said earlier, we live in an era of global financial markets and a global economy which presents both opportunities and risks for American workers, farmers and businessmen. Within that context, and to come again to the point of this hearing, we cannot afford to take the risk -- however small the probability -- that a major crisis develops while the IMF is without the capacity to respond, and so we should provide the full $18 billion IMF funding requested now.

-30-

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

EMBARGOED UNTIL 2:30 P.M.
March 3, 1998

CONTACT: Office of Financing
202/219-3350

TREASURY'S WEEKLY BILL OFFERING

The Treasury will auction two series of Treasury bills totaling approximately $13,500 million, to be issued March 12, 1998. This offering will result in a paydown for the Treasury of about $2,325 million, as the maturing publicly held weekly bills are outstanding in the amount of $15,824 million.

In addition to the public holdings, Federal Reserve Banks for their own accounts hold $7,372 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 $2,586 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-2270

HIGHLIGHTS OF TREASURY OFFERINGS OF WEEKLY BILLS
TO BE ISSUED MARCH 12, 1998

March 3, 1998

Offering Amount	$6,250 million	$7,250 million
Description of Offering:		
Term and type of security	91-day bill	182-day bill
CUSIP number	912794 6S 8	912795 AJ 0
Auction date	March 9, 1998	March 9, 1998
Issue date	March 12, 1998	March 12, 1998
Maturity date	June 11, 1998	September 10, 1998
Original issue date	December 11, 1997	March 12, 1998
Currently outstanding	$11,321 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 three decimals in increments of .005%, e.g., 7.100%, 7.105%.
(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 $1 billion or greater.
(3) Net long position must be determined as of one half-hour prior to the closing time for receipt of competitive tenders.

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

Maximum Award .... 35% of public offering

Receipt of Tenders:

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

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

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

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

EMBARGOED UNTIL MARCH 4, 1998
12:01 AM

Contact: Beth Weaver
(202) 622-2960

TREASURY RELEASES PROGRESS REPORT ON TAGGANTS

The Treasury Department released today its Progress Report on the Study of Marking, Rendering Inert, and Licensing of Explosive Materials as required by the Anti-Terrorism and Effective Death Penalty Act of 1996.

The Progress Report marks another step in the Clinton Administration's efforts to give law enforcement the tools it needs to reduce violent crime through bomb detection and investigation of criminal misuse of explosives.

"Detection and identification technologies hold great promise for helping law enforcement prevent bombings and catch bombers," said Treasury Under Secretary for Enforcement Raymond W. Kelly. "We're working to ensure that the ultimate use of taggants is as effective and safe as possible."

The report identifies and evaluates a number of promising technologies, commonly known as taggants, that could be used to trace explosives used in bombings. The next steps outlined in the report will enable Treasury to determine the best uses of these technologies, including those commonly known as taggants.

As part of the review, ATF contracted with the National Academy of Sciences (NAS) to conduct a parallel study, which will be issued tomorrow. ATF and Treasury already are working on several of the areas identified in the NAS review for further study.

-30-

RR-2271

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

EMBARGOED UNTIL 10 A.M. EST
Text as Prepared for Delivery
March 4, 1998

TREASURY UNDER SECRETARY FOR DOMESTIC FINANCE JOHN D. HAWKE, JR.
HOUSE BANKING AND FINANCIAL SERVICES SUBCOMMITTEE
ON FINANCIAL INSTITUTIONS AND CONSUMER CREDIT

Chairwoman Roukema and Members of the Subcommittee, thank you for the opportunity to appear before you today to discuss the Treasury Department's progress in implementing
EFT '99, the law that requires the Federal government to make its payments by electronic funds transfer (EFT) after January 1, 1999. This Congressional mandate, which excludes only tax refunds, will have far reaching implications for the millions of Americans who receive government payments. I commend the Subcommittee for the interest it has shown in carrying out this legislation in a manner that truly benefits all Federal payment recipients.

The Department's approach to implementing EFT '99 has been characterized by outreach to all affected parties. We have met with interested organizations throughout the country; we held public hearings in four cities, all of which were very well attended by a diverse audience; and over the course of a 90-day comment period on our proposed implementing regulation, which was published September 16, 1997, we received and have analyzed over 200 comment letters. We are keenly aware that the many stakeholders in this process have important views to share, and we have made every effort to hear those views. I will discuss more about our outreach and public education efforts later in my remarks.

Today I will address some of the major elements of our work on EFT '99, and in the course of my testimony I will respond to the questions that have been raised by the Subcommittee.

Implementation Status

As you know, EFT '99 has four key elements:

- After July 26, 1996, all Federal payments (except tax refunds) to newly eligible

RR-2272

recipients who have bank accounts must be made by EFT.

- After January 1, 1999, <u>all</u> Federal payments, again with the exception of tax refunds, must be made by EFT.

- The Secretary of the Treasury is directed to assure 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 from the requirement of mandatory EFT where the conversion from paper checks would impose hardships, or where waivers are otherwise necessary.

As I stated before the full Committee last September, four principles serve as our guideposts as we move through the implementation process:

- The transition from a paper-based system to an electronic transfer system should be accomplished with the interests of recipients ranking of paramount importance.

- Private sector competition for the business of handling Federal payments should be maximized, in order to ensure that recipients not only have a broad range of payment services and service providers from which to choose, 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 having special needs -- the elderly, individuals with physical, mental, educational or language barriers, those living in remote or rural communities -- should not be disadvantaged or caused hardship 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 Federal payment recipients who currently do not have bank accounts.

The goal of the Department of the Treasury is to issue payments by a method that will provide the best service to recipients at the lowest possible cost to taxpayers, while maintaining the greatest degree of transaction security. Treasury has been issuing electronic payments for more than two decades, and we believe there are compelling advantages to this means of payment delivery. Not only does EFT provide significant cost savings for the government -- paper payments cost us 43 cents apiece, while electronic payments cost only 2 cents -- but EFT is substantially more secure and, for most recipients more convenient, than paper checks. In FY 1997, Treasury's Financial Management Service issued more than 850 million payments on behalf of non-defense agencies, including benefit, salary and vendor payments as well as tax refunds, grants and loans. Today, over two-thirds of nontax payments are made electronically.

The evidence is strong, moreover, that electronic direct deposit has a wide degree of acceptance among payments recipients. Of payments disbursed by Treasury, 95% of Federal salary and allotment payments, about 80% of OPM retirement payments, 70% of Social Security's OASI payments, and over 65% of Veterans' Administration and Railroad Retirement Board payments are already being made by EFT. Moreover, 85% percent of all new Social Security recipients are signing up for EFT. We are seeing the same progress with respect to other types of government payments. For example, the number of vendor payments made electronically since FY 1996 has grown by 120 percent. These numbers give us great confidence for the future, because they strongly suggest that there is an increasing level of comfort with and acceptance of EFT among Americans, and they strongly indicate that time will take us closer and closer to the goal of an electronic payments environment.

Status of EFT '99 Efforts

Since the passage of EFT '99 in April 1996, Treasury has made significant progress in its implementation efforts. We published an interim rule that was effective July 26, 1996, and we are currently drafting the final implementing rule, which will be published this spring.

The major issues that have emerged in our rulemaking concern the scope of the waiver provisions, and the structure and availability of the Electronic Transfer Account (ETA), which is the means by which we propose to fulfill our mandate to assure the availability of a reasonable cost account. We are giving serious consideration to all of the comments we received, and I am providing the Subcommittee today with a detailed summary of the comment letters.

Waiver Provisions

In our proposed rule, we indicated that waivers from the requirement of mandatory EFT would be available, among other reasons, for individuals who certify that EFT would impose a hardship because of a physical disability or geographic barrier, or, in the case of an individual who does not have a bank account, that EFT would impose a financial hardship. We also proposed to draw a distinction between recipients coming on stream after July 1996 (the date of our interim regulation implementing the requirement that all new recipients with bank accounts receive payments by EFT) and those who were receiving Federal payments before that date.

Many of those providing comments urged us to extend waivers as well to individuals with mental disabilities and literacy or language barriers, and questions were raised as to the appropriateness of a distinction between existing and new recipients with respect to the availability of waivers. We are giving the most careful consideration to all of these comments, and I think it is very likely that we will not only expand the scope of waivers, but will work to simplify the procedures for invoking waivers.

Let me elaborate on our thinking in this regard, because we believe it is critically important that the Congress understand and share our approach. There is an obvious tension between realizing the long-range objectives of EFT '99 -- maximizing both the cost savings to the government and the benefits of increased security and convenience for recipients from the move to electronic payments -- while avoiding disruption, hardship, inconvenience and apprehension on the part of payment recipients. We are very purposefully attempting to resolve this tension by giving primacy to the interests of recipients, while laying the groundwork for full implementation of EFT over the long term. We have a strong conviction that even with a liberal waiver policy the transition to EFT will come about quite effectively in the fullness of time, as more and more citizens become familiar and comfortable with new electronic payments technology and recognize the benefits of EFT.

Electronic Transfer Accounts

At present electronic payments may only be deposited into accounts at financial institutions. The most complex issue confronting us in implementing EFT '99 is how to meet the needs of the approximately 10 million Federal payment recipients who do not have accounts at financial institutions. While there are many reasons why these individuals do not have bank accounts, the overwhelming reason is that the overall cost of a conventional bank checking account is disproportionate to their financial resources. The rapidly developing environment of electronic banking, with its sharply reduced costs for all participants in the payments system, presents the prospect of offering unbanked recipients a means of enjoying basic banking service at a very low cost. Our objective is to realize this prospect.

While we are still in the process of formulating the ETA, there are several considerations that are currently guiding our thinking about how we fulfill our mandate to assure the availability of a reasonably priced account for Federal payments recipients:

- We intend to create an Electronic Transfer Account that will be offered by federally-insured financial institutions selected, initially at least, through a process of competitive bidding in defined regions of the country. We will prescribe a uniform design for the account. We are presently exploring a process by which smaller institutions, such as community banks and credit unions, which may not have the capacity to offer the ETA throughout one of the defined regions, could elect to become providers of ETAs within the communities they serve under substantially the same terms as those fixed in the competitive bidding process. No institution will be required to offer ETAs, however.

- We will also provide that in states in which there are Electronic Benefit Transfer programs up and running, unbanked recipients may, at their option, elect to receive their payments through such a program. Today 30 states have operating EBT systems -- 16 statewide.

- The ETA will be designed principally to provide a low-cost means of receiving and accessing Federal payments. The account will be offered to recipients at a basic monthly service charge that will be determined in the competitive bidding. Recipients who may find even this charge to be a hardship will be entitled to a waiver that will allow them to continue to receive checks.

- While the ETA is being designed principally for recipients who do not have their own bank accounts, we are exploring ways to avoid disadvantaging those Federal payment recipients who were previously unbanked and who may have signed up for accounts being offered in anticipation of EFT '99 taking effect even before the ETA became available. In this connection we are keenly sensitive to the need to strike a proper balance between offering a useful account to those who need it, and avoiding the creation of disincentives to the private sector to provide competitive and innovative alternative electronic banking products. We believe it is of great importance that financial institutions develop their own approaches to serving the needs of payments recipients in an electronic environment.

A major question for us is what features we should design into the ETA beyond the basic ability to receive and access Federal payments. Our primary objective, of course, is to keep the cost of the account as low as possible, while making it attractive to unbanked payment recipients. In this regard, we recognize that if we were to add additional features the basic cost of the account could be increased for all recipients, including those who have no need for or interest in the additional features. This could raise issues of cross-subsidization among ETA holders, which would be of great concern to us. It may be, however, that there are some features that can be added at only modest incremental cost -- perhaps on a pay-per-use basis -- that would help to encourage unbanked recipients in the financial services mainstream, and we are giving careful thought to these. Our current thinking is that at least the following features would be included within the basic monthly charge for the ETA:

- unlimited receipt of Federal electronic payments;

- debit card access, with some specified number of free ATM withdrawals and unlimited point-of-sale purchases, including cash-back;

- no minimum balance requirement;

- on-line balance inquiry;

- one free replacement card per year; and

- toll-free access to customer service, 24 hours a day, seven days a week.

We plan to develop a proposed ETA structure in March and then publish it for public comment for 30 days. After evaluating the comments, we will determine the final design of the account and then initiate the process of competitive bidding.

Implementation Time Frame

The Subcommittee has asked that we address the question whether we will be able to meet the January 1, 1999 deadline for full implementation of EFT '99, and if not whether we will be requesting legislation to delay the effective date.

Let me assure the Subcommittee that we have been working hard to realize the objective of a January 1, 1999 effective date, and we presently see no reason to legislate a change in that date. For many millions of payments recipients who have bank accounts, the transition to EFT should not present problems, and for those banked recipients who may face some hardship in the transition our regulation setting forth the availability of waivers will be in place well in advance of the effective date. To delay the effective date generally would, we believe, needlessly delay realization of much of the benefit of EFT '99.

As we signaled in our Notice of Proposed Rulemaking, however, there is a substantial likelihood that the ETA will not be available by January 1, 1999, and thus unbanked recipients may not by that date have available a facility for receiving electronic payments. It was for this reason that we originally proposed to grant a waiver until the earlier of January 1, 2000, or when the ETA becomes available, to those recipients who certified that they did not have a bank account. In our subsequent deliberations, however, particularly with our colleagues at the Social Security Administration, we have become concerned about the logistical burdens that could result from a requirement for such written certifications from recipients who want to invoke any of the various waivers available.

As the result of our continuing discussions with SSA, we believe we have jointly developed possible approaches to these problems. For example, we could consider granting an automatic waiver, requiring no written certification, for those who want to wait for the ETA, until the earlier of January 1, 2000 or the time the ETA is available nationwide. In addition, we could provide the agencies flexibility with respect to the process for the invocation of waivers, in order to avoid the need to deal with an avalanche of paper -- for example, by establishing a presumption that waivers have been invoked by recipients from whom no response is received after the agency has informed them of the options available to them under the regulation.

Public Education

We firmly believe that for EFT '99 to succeed, a significant public education effort is essential. Payments recipients not only must be informed of the requirements of the new law, but they must be fully and fairly informed of their options. Above all, they must be educated on the benefits of EFT in general, the attributes of the ETA, and the process for bringing about the conversion. We need to get across emphatically the message that no one's payments will be interrupted or withheld because of the transition, and we must give those recipients who have apprehensions about the program the comfort of knowing that waivers will be liberally available. In short, we recognize that effective communication is a key to success for any new program, and we are putting a great deal of time, energy and financial resources into conveying the appropriate messages to recipients.

Treasury has conducted extensive market research to learn more about the characteristics of the recipient population, and we will be using that information to craft an effective, nationwide public education campaign. Our most recent market research, which took the form of focus groups around the country, tested various EFT '99 messages that may be used in the public education campaign. The purpose was to ensure the appropriateness of language, cultural sensitivities, ease of understanding, and overall appeal of the messages we hope to use in the campaign. We recognize that it is crucial to the success of EFT '99 that we make available to stakeholder groups and the public clear and easily intelligible information about the requirements of the legislation.

Components of the campaign include messages to current check recipients about the requirement to convert to EFT payments, the safety and convenience of EFT, and the procedure for signing up for EFT. Another key aspect is educating those check recipients without accounts at financial institutions how to obtain and maintain a bank account. We want to assure that all payment recipients, particularly those without bank accounts, know that they do not have to give up checks until the ETA is available to them, and we want them to understand the scope of the waivers that will be available. We do not want recipients to be stampeded into choices that are not right for them, and this message will be key to the campaign and to any literature that we distribute.

Treasury has undertaken extensive outreach efforts in furtherance of this campaign, including meetings with consumer and community-based organizations, government vendors, financial trade associations, and both bank and non-bank providers of payments services. We have placed a heavy emphasis on working through and with consumer and community groups in our public education efforts, as these groups represent and interact directly with payment recipients on an ongoing basis. Our outreach effort through these organizations, which has become a key component of our campaign, began in earnest with a meeting last November here in Washington that included interactive workshops and other discussions to help Treasury better understand recipients' diverse needs. A second forum, which was also widely attended, was held in Los Angeles in December to hear community organizations' perspectives on the needs of those in their communities.

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 effort is critical to the success of converting current check recipients, both banked and unbanked, to electronic payments. For instance, an ad hoc Financial Services Education Coalition has convened in response to the need for EFT '99 materials. Also, a new pamphlet, entitled "*What*

You Need to Know About Your Federal Government Payment," has been printed and is being distributed to recipients to clarify any confusion that may be created by EFT '99. As of the last week of February, 455,000 copies of the English version and 8,500 copies of the Spanish version of this brochure have been requested by financial institutions, community-based organizations, and consumer organizations for their constituents. Over one million copies have been printed and are ready to be distributed free of charge to those who are interested.

Treasury continues to meet with Federal agencies to develop EFT implementation plans. These meetings enable us to educate agencies on the provisions of the Act and also provide a forum for agencies to inform us of any potential problems with EFT implementation. We have obtained additional agency feedback from interagency policy workgroups that were formed to address major EFT conversion issues such as international payments, disaster payments, and vendor payments.

In summary, the objectives of this campaign will be to work closely with the grassroots community, the private sector and other Federal agencies, to educate consumers so that they can 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 entity must work in collaboration with the other, providing reinforcement, assistance and a shared set of objectives. Under the leadership of the Treasury Department, we are confident that this will happen.

Conclusion

The Treasury Department believes that EFT '99 provides an important opportunity for us to provide the high quality of service that our customers deserve, and at the same time to lower the cost of government to taxpayers.

Thank you, once again, for the opportunity to report on the progress of EFT '99 as well as the challenges that lie ahead. I will be glad to answer any questions the Subcommittee may have.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

EMBARGOED UNTIL 10:00 AM
Text as Prepared for Delivery
March 4, 1998

Mary E. Chaves
Director, International Debt Policy
U.S. Treasury Department
Before the
House International Relations Committee

I appreciate the opportunity to testify on behalf of the Treasury Department regarding H.R. 2870, the proposed Tropical Forest Conservation Act of 1998. This legislation would help protect tropical forests in developing countries through a combination of U.S. debt reduction and debtor government creation of local funds to preserve, maintain, and restore tropical forests.

The fundamental objectives underlying this legislation are clearly laudable. The Treasury Department supports both efforts to preserve tropical forests and the concept of linking debt reduction to environmental objectives. The original Enterprise for the Americas Initiative (EAI), and our current buyback/swap program encompass such linkage.

H.R. 2870 closely follows that of the EAI, through which the United States provided $875 million in debt reduction to seven Latin American and Caribbean countries. This program generated $154 million in local currency funds for the environment and child survival, with over 700 grass roots projects funded to date -- ranging from reforestation projects and the rehabilitation of critical watersheds to environmental projects for homeless children. Decisions on how these funds will be used will continue to be made by combination public/private boards within the debtor countries, and to be monitored by a similar public/private board here in Washington.

One of the U.S. environmental NGOs has called the EAI the best kept secret in Washington. We're glad its good work in this Hemisphere is being recognized. Local funds created through debt reduction in 1991-1993 will continue to generate funds for the environment and child development for many more years.

Recently, in an effort to continue the EAI program, the Administration proposed, and Congress approved, a buyback/swap program for the region. Under this program, USAID debt is sold at its government asset value, based on its expected net present value. The sale can occur either to the debtor country (through a buyback) or to a third party (through a swap). No U.S. budget cost
RR-2273

is incurred through these transactions. The debtor country receives a debt reduction benefit, and in turn provides local currency resources to support environmental, child survival, development, or investment programs.

We have received expressions of interest in this program from Jamaica, the Dominican Republic, and Guatemala, and have just completed a debt buyback by Peru. Peru's transaction permitted it to repurchase USAID debt for one-third of its face value, while generating $23 million for local environment and child survival programs. We believe authority for buybacks or swaps would be a useful addition to H.R. 2870 that could significantly reduce its budget cost.

The Administration's FY 1999 budget request for debt restructuring programs focuses primarily on international efforts to assist the poorest countries. This includes up to 67 percent debt reduction under the current Naples Terms within the Paris Club of creditor governments. For those countries requiring additional relief, the Paris Club will provide up to 80 percent debt reduction in combination with debt relief from multilateral creditors under the heavily indebted poorest countries debt initiative, known as HIPC. In addition, the Administration is seeking appropriations to support full forgiveness of concessional debt for poorest African countries which qualify with strong reform efforts under the President's Africa Initiative.

In considering H.R. 2870, the Administration will want to review how this legislation might complement existing debt reduction programs. We are also concerned that support for this legislation not take resources from existing debt and environmental programs, which we believe are a priority.

The Global Environment Facility

In particular, the Administration is seeking $300 million in FY 1999 appropriations for the Global Environment Facility, known as the GEF. This includes $192.5 million to clear GEF arrears and $107.5 million for a first contribution to a new replenishment. The pilot phase of the GEF and negotiations for the first independent GEF occurred during the Bush Administration. It has continued to receive strong bipartisan support during the Clinton Administration.

The GEF is the foremost international organization helping developing and Eastern European countries conserve the world's remaining forests and their biological diversity. The GEF also assists in addressing degradation of international waters and fisheries; pollution from inefficient energy use; and destruction of the ozone layer. In the forestry sector, the GEF works for the kind of policy reforms and law enforcement that allow programs like the EAI to have sustained positive impacts. The GEF is implementing major forest projects in over 40 countries and supporting better forest management capacity in many more.

The GEF is our top environmental priority and our top arrears clearance priority among the multilateral banks for FY 1999 funding. Its arrears are the highest of any of the international financial institutions. We believe it is crucial to clear all Global Environment Facility arrears and to authorize and contribute to the second GEF replenishment this year. We therefore encourage strong

Congressional support for our funding request for the GEF for FY 1999 as a key element of U.S. international environmental programs.

Possible Modifications to H.R. 2870

We believe the proposed Tropical Forest Conservation Act of 1998 could attractively complement our current programs in future years. We want to work with the Committee as this legislation moves forward to consider a number of issues, including whether to continue to focus action on concessional debt, as we have in the past, or to also include action on other debt, as suggested in this legislation. The Administration could conceivably use this legislation to complement action under existing programs for poorest countries and as a new benefit for lower middle income countries with heavy debt burdens in all regions of the world. However, we believe the Administration should have the flexibility to adjust the degree of debt reduction and to utilize debt buybacks or swaps where appropriate for more creditworthy countries.

Finally, some of the proposed eligible countries for FY 1999 and 2000 are already receiving benefits under existing debt reduction programs, or have little remaining U.S. debt. A broader scope for action would permit the Administration to take into account both the relative need for debt reduction and the potential for tropical forest benefit in individual countries in designing a final program for implementation.

I would like to thank the Committee for the opportunity to comment on the proposed Tropical Forest Conservation Act of 1998. We look forward to working with you as this legislation moves forward.

-30-

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

EMBARGOED UNTIL 3 P.M. EST
Text as Prepared for Delivery
March 4, 1998

TREASURY SECRETARY ROBERT E. RUBIN
HOUSE APPROPRIATIONS SUBCOMMITTEE ON TREASURY,
POSTAL SERVICE AND GENERAL GOVERNMENT

Mr. Chairman, members of the Committee, I appreciate the opportunity to testify on the Treasury Department's fiscal year 1999 budget request. With me today is Nancy Killefer, our Assistant Secretary for Management and Chief Financial Officer.

Treasury is requesting $12.3 billion in fiscal year 1999 an increase of 7.2 percent over FY 1998. This increase is necessary to maintain current operations by supporting mandatory cost increases and meeting anticipated workload requirements in FY 1999; to invest in critical capital improvements for future efficiencies and program improvements and for addressing future workload growth; and to accomplish important program enhancements.

Our request is critical to supporting Treasury's important and wide-ranging mission. The Treasury plays a key role in the core functions of government, including tax administration, revenue collection, law enforcement, financial management, tax policy, banking policy, international economic policy and domestic economic policy. As just a few examples, we fight narcotics trafficking and money laundering through Customs and other agencies, and manage the federal government's debt structure at the Bureau of Public Debt. We manufacture and protect the nation's currency, process the federal paychecks for millions of Americans, and help develop policies related to the budget, the nation's tax structure, international economic matters, and inner city economic development.

With such a broad portfolio, we take very seriously the notion that we must continually seek new ways to improve services and lower costs. Towards meeting these purposes, our budget request supports Treasury's Strategic Plan and provides a performance plan for each of Treasury's primary missions and we, and I as Secretary, have worked to make GPRA not a

RR-2274

required exercise, but rather a live, integral part of our thinking to improve how we fulfill our many missions. More broadly, we believe that we must not do anything that threatens the fiscal discipline so many have worked so hard to restore in this country, and which has been critical to the strong economic conditions of the past five years.

We've already provided the Committee detailed presentation material on the extent of our fiscal year 1999 request. Let me now highlight four areas -- departmental offices, the IRS, law enforcement, and the year 2000 problem.

First, let me discuss Departmental Offices. Departmental Offices contain the policy groups that are meeting greatly increased challenges in the current environment: tax policy, which is developing the regulations to implement the tax cuts, loophole closers and simplifications of last year's budget; international economic policy, which is providing leadership for the United States and the world in response to the short and long-term issues of financial instability in the global economy; economic policy, which is deeply involved in international economic issues, entitlement reform, and the economic initiatives in the President's budget; and law enforcement, which has expanded policy and oversight objectives.

In addition, Departmental Offices contain the central management functions for all of Treasury, and in furtherance of our very serious focus on management, human resources, technology, and, of special interest with respect to budgetary matters, embarkation on a five year restoration and repair program of the historic Treasury Department building, these functions are being enhanced.

Second, let me turn to the Internal Revenue Service.

Shortly after I first became Secretary, I became aware of serious problems at the IRS. In many cases, those problems came to my attention as a result of the work and diligence of this Committee. Over the last two and a half years we have been engaged in a highly intensified process of change and reform at the IRS that has led to dramatic change with respect to technology -- though that is just the beginning of getting to where we need to go -- increased electronic filing, improved telephone service and a greatly strengthened taxpayer advocate. Perhaps most importantly, and symbolizing our commitment to thoroughgoing change, we brought on board a new type of Commissioner, Charles Rossotti, who had extensive experience as a CEO in the private sector, with expertise in computer systems.

However, while important steps have been taken, the great bulk of the challenges lies ahead. Just as these problems took a long time to develop, it is going to take a great deal of time and effort by all of us to build the kind of IRS that the taxpayers deserve. We are committed to working with you to accomplish that goal. Our budget request includes a series of items to advance this effort.

First, our request includes additional resources to improve customer service, including increasing and improving the quality of telephone access, rewriting of notices and forms, expanding the taxpayer advocate staff, and implementing Citizen Advocacy Panels.

Second, our request positions the IRS to move forward with implementing the Modernization Blueprint, which is absolutely a requisite to improvements in customer service, efficiency, tax compliance and financial reporting. On a broader front, the budget provides seed funding as the Service moves more fully to implement its new organizational concept.

Finally, our request includes important restoration of funding for essential business-line investments. This funding has been deferred and reallocated over the past two years to address immediate Year 2000 requirements, about which I will say a few words in a moment. However, significant needs still exist for these investments in order to replace critical items such as aging computer equipment for front line examination personnel. This investment is essential to our goal of providing efficient compliance operations and effective service to taxpayers.

Let me turn now to our budget request for Treasury's law enforcement activities. I spoke before this Committee last week on this subject, but I want to reiterate several key points.

As this committee well knows, Treasury has extensive and critical law enforcement responsibilities executed by Customs, the Secret Service, Alcohol, Tobacco and Firearms, the IRS, FINCEN, and the Federal Law Enforcement Training Center. To strengthen these critical efforts, the President's FY 1999 budget for Treasury law enforcement bureaus totals $3.204 billion, an increase of $172 million or 5.7 percent above last year. We need this increase to meet certain mandatory cost increases, and to enhance our activities in combating narcotics trafficking, reducing illegal firearms trafficking to young people, improving Presidential protection and White House security, investigating financial crimes, and training law enforcement officers.

Mr. Chairman, in my testimony last week, you raised the issue with respect to the comparison with Justice. The Administration throughout the budget process has made what it felt was the optimal allocation of scarce resources within the constraints of fiscal discipline, but as you now go through your examination, this committee might wish to direct an analysis of that comparison. I will observe that both the Justice Department and the law enforcement missions at Treasury are critical and that the cooperation and coordination between Treasury and Justice law enforcement, both at headquarters and in the field, is working well, which has too often not been the case.

We at Treasury have enormous pride in the quality and esprit of our law enforcement bureaus, and we are committed to fully supporting them, as in the Secret Service decision to enhance White House security, ATF's reforms and its defense against strident attacks by the NRA, and the securing of appropriate funding. Our law enforcement budget has, over the past five years had an increase of 27.9 percent, compared to 20.6 percent for non-defense discretionary, and this committee has contributed greatly to that result.

Finally, Mr. Chairman, let me say a word about an issue of pressing importance to our nation and one on which we are keenly focused at Treasury: the Year 2000 date change problem. As you know, many computer systems rely on two digit dates as a result of a short cut computer programmers widely used until recently. The year 2000 would be entered as "00" but interpreted as "1900." As a result, these computers will not be able to execute many required functions properly as of January 1, 2000. As an agency with massive computer system activities second only to the Defense Department in the federal government, this issue is one of the highest priorities to us. I meet bi-weekly with Assistant Secretary Nancy Killefer and our highly respected Treasury CIO to track progress and focus on problems.

Our FY 1999 budget includes $253 million to address this problem at Treasury. Treasury's date change needs are also part of the Administration's FY 1998 Supplemental Budget Request. We have identified close to $200 million in additional needs in the current year that must be funded if we are to complete the fixes in time, but the supplemental proposed by the Administration includes additional flexibility of up to $250 million in order to fund these requirements. To date, we have identified new requirements of approximately $175 million that need to be addressed this fiscal year. We look forward to working together with the Committee in addressing these critical requirements.

In both the private and public sectors, cost estimates and time lines on Y2K compliance have exceeded expectations. So that we can meet this challenge in time, Treasury is focussing on only those systems most critical to its mission. The challenge is enormous, but we have made significant progress thus far and continue to be on schedule for almost all our mission critical systems.

Mr. Chairman, let me conclude on a personal note. Throughout my experience in government, which includes two years at the National Economic Council, and three years at Treasury, I have been continually impressed by the intelligence, professionalism and dedication of the people with whom I've had the opportunity to work.

A Secretary of any Department faces a lot of challenges, including a multitude of policy issues, and has to make judgements about priorities. When I was first nominated to be Treasury Secretary I had dinner with a former Treasury official who had served with two administrations and who advised me that my highest priority should be to focus on maintaining and building on the excellence of this institution. He was absolutely right. And we have been intensely focused on management issues in my tenure and it is in that spirit that I ask you to approve our budget request. Let me also say that I have been continually impressed by the capability, the professionalism, and the commitment of the people at Treasury and the Bureaus, and they deserve our support on their work to fulfill their wide range of responsibilities in serving the American people. I also feel that in my time at Treasury this Committee has made a major contribution to the management of Treasury through its constructive and knowledgeable analysis and review, and through its support for funding. Thank you very much and I look forward to working with all of you in the future as we face our challenges.

-30-

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
March 3, 1998

Contact: Hamilton Dix
(202) 622-2960

RUBIN TO SPEAK AT NEW YORK SAVINGS BONDS KICKOFF

Treasury Secretary Robert E. Rubin will kickoff New York's annual Savings Bonds campaign at noon, Friday, March 6. in the Grand Ballroom of the Plaza Hotel, Fifth Avenue at Central Park South.

U.S. Treasurer Mary Ellen Withrow will join Secretary Rubin at the luncheon sponsored by the Greater New York Savings Bonds Committee and hosted by the committee's 1998 Chairman Frank N. Newman, Chairman of Bankers Trust Company.

55 million Americans own more than 800 million Savings Bonds worth $186 billion. 15 million Americans purchase Savings Bonds every year and 6.7 million purchase through their employers' payroll savings plan.

Interested media may set up beginning at 11 a.m. and photo identification is required.

-30-

RR-2275

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
March 4, 1997

Contact: Kelly Crawford
(202) 622-2960

STATEMENT BY TREASURY SECRETARY ROBERT E. RUBIN ON THAILAND

I welcome the favorable IMF Board review of Thailand's Stand-by program completed today. We are encouraged by the progress of the Thai authorities in implementing their IMF-supported economic program, and commend the strengthened measures outlined in the latest Letter of Intent. These measures have been well received by the financial markets, and we welcome the fact that major international banks have been playing a constructive role in Thailand by extending their short-term claims to Thai banks.

As a sign of our continued confidence in the commitment of the Thai Government to reform, the United States would be prepared, if circumstances warrant, to support additional IMF financing for Thailand in the form of access to the IMF's Supplemental Reserve Facility. This step is designed to reinforce the positive developments in Thailand by making it clear that access to additional resources will be provided, if needed. Thailand now has substantial reserves and significant amounts of official support in the pipeline. The international community has a strong stake in the success of Thailand's reform program, and the United States will continue to play an active role in supporting those efforts.

-30-

RR-2276

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

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

EMBARGOED UNTIL 9 A.M. EST
Text as Prepared for Delivery
March 5, 1998

TREASURY SECRETARY ROBERT E. RUBIN
HOUSE APPROPRIATIONS SUBCOMMITTEE ON VA, HUD AND INDEPENDENT AGENCIES

Mr. Chairman, members of the Subcommittee, it is a pleasure to speak with you today about our Fiscal Year 1999 budget request for the Community Development Financial Institution Fund. I am pleased to be joined today by Ellen Lazar, the new Director of the CDFI Fund.

The President's budget for FY99 includes $125 million for the CDFI Fund. This funding is a critical component of our strategy to promote private sector-led economic growth in economically distressed areas.

Since taking office, one of President Clinton's highest priorities has been to foster growth in economically distressed communities. I have long thought -- and I know President Clinton shares this belief -- that this is an issue of vital importance to all of us -- no matter where we live or what our incomes may be. It is a fundamental national *economic* issue, because our country will never reach its full economic potential, unless we deal with the problems of the inner city and other economically distressed communities. Just think of the difference it would make in terms of increasing productivity and standards of living while reducing the costs connected with social problems if we can bring the residents of these areas into the economic mainstream.

The Administration's strategy has three components: investing in people, through education, and training; strengthening public safety; and fostering economic and community development. At Treasury, we are energetically involved in this effort by bringing our broad expertise in the capital markets to bear on these issues. One of the most important components of our strategy is the CDFI Fund, which made its first round of awards in July 1996.

RR-2277

In CDFI, I believe we have a new, more market-driven approach in fostering economic growth in economically distressed areas. In many respects, we are witnessing a quiet revolution in the approach taken to these issues by helping the public sector and non-profit organizations work with mainstream banks and other financial institutions to create jobs and promote growth. The Fund's aim is to expand access to credit and financial services in lower income 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 for jobs and growth because residents are turned down by financial institutions. In short, the CDFI Fund is helping to provide capital to promote private sector activity in communities across the country.

The CDFI Fund has two main programs: the CDFI program, which is designed to assist specialized community development financial institutions, and the Bank Enterprise Award program, which rewards financial institutions that are increasing their lending and providing more financial services in distressed communities. Both programs pursue strategies designed to meet unique local needs to help each community deal with its particular circumstances, whether it is helping people buy a house, or start a business, with the goal of moving all Americans into the economic mainstream.

The program is still young, but we are already seeing signs of success. Thus far we have awarded $75 million to nearly 80 CDFIs around the country. As required by law, these dollars are matched one-to-one with non-Federal dollars by CDFI award recipients. As a result, these investments will leverage at least twice the amount of capital awarded and sometimes more.

These investments are making a difference. For example, Bethex Federal Credit Union in the South Bronx, a small financial institution originally founded in 1970 by welfare recipients, received a $100,000 grant from the CDFI Fund to expand its financial services and increase its business lending. Over the past 18 months, Bethex' membership has grown from 1,270 to 3,000 and its assets have increased from $1.6 million to $3 million. In addition, Bethex has launched a "School Banking" program to encourage savings among students.

Let me describe the impact that the Fund had on one individual. Andrew Fuentes of San Antonio was too ill to return to his construction job. At his wife's suggestion, he made a table and set of chairs for their empty kitchen out of some old wood. Soon afterward, Mr. Fuentes was selling his furniture to friends and began making furniture full time. Andrew approached several banks for a loan to expand his business, but was turned down because of his credit history. He eventually applied for and obtained a $3,000 loan from ACCION Texas, a local 1996 CDFI awardee and this loan allowed him to expand his inventory and double his sales.

With respect to the BEA program, more banks and thrifts than ever before are reaching out to their communities and investing in CDFIs. This year we received 104 applications, a 40 percent increase over last year's applications. Moreover, many of the awardees are choosing to reinvest the awards they receive for past performance back into community development projects. They are by no means required to do so. The Fund's $30 million in BEA investments have already leveraged $273 million in bank activities. 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 to help build the capacity and skills of CDFIs.

As with any new organization there have been some growing pains. Let me emphasize that congressional oversight has been useful in helping the Fund strengthen its internal controls and procedures. I believe we have dealt with those problems effectively and we will continue to improve procedures as this program grows and matures. In fact, the fund was recently given an unqualified audit for its activities since inception. We are moving this program forward with the new leadership of Ellen Lazar, who I believe brings to the job the dedication, experience and energy needed to implement the CDFI Fund's important work in the years ahead.

Mr. Chairman, we now have a vision that makes sense, a program that is up and running, and money that has begun to flow to communities and make a difference in people's lives. Since its inception, CDFI has enjoyed bipartisan support and I look forward to working with all of you to reauthorize it next year and secure stable and adequate funding going forward so that communities across the country can continue to benefit from the Fund's work. 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.

-30-

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

EMBARGOED UNTIL 11 A.M. EST
Text as Prepared for Delivery
March 5, 1998

TREASURY DEPUTY ASSISTANT SECRETARY JONATHAN GRUBER
HOUSE EDUCATION AND THE WORKFORCE SUBCOMMITTEE ON POSTSECONDARY EDUCATION, TRAINING AND LIFE-LONG LEARNING

Thank you for allowing me to come before you today to talk about the Treasury Department's study of the financial viability of the government-guaranteed student Federal Family Education Loan (FFEL) program. Last fall, the Office of Economic Policy at the Treasury Department was asked by the National Economic Council to consider in particular the costs and net returns to banks participating in this program under today's rules and the potential impact of the interest rate change scheduled for July 1, 1998.

My office then undertook an intensive analysis of the functioning of the FFEL program for large, for-profit lenders. Although we recognize the diversity of participants in this market, we chose this particular focus because these institutions span the markets in which other lenders operate, and represent the majority of loan origination today.

Our analysis is based on consultation with a number of large originators, holders, and guarantors of student loans, as well as several other banks that finance and follow the student loan business. We also talked with numerous outside experts, including Wall Street analysts of this industry, academic experts on the banking industry, and staff at the Federal Reserve. We relied as well on the helpful earlier analysis done by the Congressional Research Service. The basic results of our analysis are as follows:

- Under the current structure, banks earn returns well above the target rate of return that they would require to participate in the FFEL program.

- Under the interest rate change as currently scheduled, however, banks would earn returns somewhat below that target.

RR-2278

- There are inefficiencies associated with the mismatch of (long-term) student loan interest rates and (short-term) bank financing under the proposed formula. Therefore, joint benefits could be realized to students and lenders from moving back to a short-term index.

- An alternative rate setting formula, suggested by some, that returned the index for student loans to the short-term rate, while holding students at the same interest rate that they would face if the scheduled law change were to take place, would provide a competitive rate of return for banks and maintain bank participation in the program.

The analysis that underlies these conclusions included several steps. The first is to calculate the net income of student loan lenders. The gross income of these lenders is simply determined by the legislated interest rate. We then subtract from this net income several types of costs:

- *Cost of matched funds*: To finance this loan to students, lenders must raise their own capital funds; the largest cost offsetting the income from student loans is this cost of raising "matched funds". The vast majority of these funds are raised in one of two ways: by direct borrowing, which generally takes place at some markup over a short term interest rate; or securitization, whereby lenders create securities which are directly backed by their Treasury-bill denominated student loans. We obtained a number of quotes for both these types of matched funding under today's system, and the costs were very close to each other.

  After the scheduled interest rate change, however, there will be an important mismatch between the stream of payments from students (which is tied to a long term index) and the sources of bank financing (which are tied to short term interest rates). This mismatch introduces risk into lenders' portfolios, since they can't be sure that the income flowing in from students will match the required payments that banks must make to their financiers. Banks can shed this risk by "swapping" -- i.e. giving up -- their long-term income for income that is tied to a short-term index. The price for doing so is some extra "hedging cost" that is paid to the swap dealer who is willing to bear this risk for the banks. We talked with several major financial institutions, who provided estimates of the cost of the required swaps.

- *Servicing and overhead costs*: These consist of the expenses of running the student loan portfolio, including a share of expenses such as general management, legal, accounting, human resources, and marketing costs, plus direct costs for servicing the loan such as expenses for collections, borrower correspondence, reporting and account maintenance, and filing guarantee claims. Servicing costs may vary among lenders depending on the size of lenders and the efficiency of their operations; larger lenders probably are more efficient owing to economies of scale, while smaller lenders often sell the loans to secondary markets or contract for servicing.

- *Default*: The possibility of default on loans in repayment also implies some cost to lenders. This cost is small, however, because the federal government guarantees all loans, with banks bearing only two percent of the risk.

- *Fees*: Another cost for lenders is the one-time 0.5 percent origination fee paid by loan originators to the Department of Education. We spread the cost of this fee over the average life of a loan to obtain its annual cost. In addition to this origination fee, holders of consolidation loans must pay to the Federal Government a rebate fee, calculated on an annual basis, equal to 1.05 percent of the loan principal plus interest.

- *Prepayment*: Lenders offering student loans face a risk of prepayment of loans attributable to defaults, loan consolidation, and advance payments from borrowers. Prepayment reduces the life of a loan, thereby increasing the over-the-life cost of certain fixed expenses, e.g., origination support. Consequently, lenders may face a prepayment risk that results in a cost to them. Many financial experts, however, think that prepayment costs are not large for student loans.

We then subtract the sum of these costs from the return to the student loan, to obtain the net income on assets before tax. The second step in our analysis is then to compare this net income to the banks "target" rate of return, or the rate of return that banks require to continue to participate in the student loan program.

As I noted earlier, banks finance the vast majority of their student loans by raising offsetting funding, either by borrowing or by securitizing. But regulatory requirements, and generally safe and prudent bank practice, requires that some part of the loan be financed by the banks' own capital, or equity. This equity in turn, must earn a competitive rate of return to maintain investment in the bank. Thus, ultimately, the target rate of return on a student loan is determined by the share of the loan that must be financed by the banks own capital (capitalization), times the rate of return required on that equity capital. That is, the desire of banks to participate in the FFEL program will be determined by whether they can earn a competitive rate of return on the capital that they must keep to offset the loan itself.

We assume a range for both of the key variables that pin down the bank's target rate of return, the level of capitalization and the rate of return on equity. The minimum level of capitalization required by regulators for a student loans, which are a very safe asset compared to others held by banks, is on the order of 2%. However, regulators also require that, across all their assets, banks have 4-5% capitalization. Moreover, banks today have capitalization of over 7%. Our assumption for capitalization for the report is 4-5%, the overall regulatory requirement across all assets. This is well above the minimum capitalization required by banks to offset their student loans, but it is also below the average capitalization today for banks.

Our assumption for rates of return on equity capital is a range of 10-14% after-tax. The upper bound of this range is slightly above the average return on equity for the 10 largest banks over the past five years, a period of historically high returns on equity. The middle of this range represents the longer run historical average. The lower bound represents both consideration that student loans are less risky than average, so that they may require a lower return on equity capital on the margin, and the fact that these loans may function to some extent as a "loss leader" to attract later business as students borrow for other reasons. Combining our range of capitalization and rate of return on equity capital assumptions, we estimate a "target" rate of return on assets of between 0.8 and 1.15 percent.

The third step in our analysis was to compare the actual rates of return on assets for lenders to this target rate of return, over time, for several different policy scenarios. To reiterate and expand on what I said earlier, our results from doing so are as follows:

- Under the current structure, banks earn returns well above their target range, at about 1.63 percent.
- Under the scheduled interest rate change, banks would earn returns somewhat below their target range, at about 0.53 percent on average over the next five years. Such a reduction need not imply an immediate crisis in the market for guaranteed student loans, but it could be problematic for lenders in the longer term.
- There are inefficiencies associated with the mismatch of (long-term) student loan interest rates and (short-term) bank financing under the scheduled change. Therefore, joint benefits could be realized to students and lenders from moving back to a short-term index.
- We then consider an alternative rate setting formula that has been suggested by some: returning the index for student loans to the short-term rate, while holding students at the same interest rate that they would face if the scheduled law change were to take place. We find that over the next five years, "holding students harmless" in this way would result in an average rate of return on assets to banks of 0.85 percent, which is at the bottom of their range of target rates of return, and thus could maintain bank participation in the program.
- We also confirmed the significant differences in lender costs for loans in-school and in-repayment, as is recognized by the current 0.6 percent differential between the interest rate charged to students in school and in repayment. Continuing to include such a differential between the interest rates charged in school and in repayment would be an effective means of addressing the underlying cost differences in these two cases.
- Finally, we note that the uncertainties involved in this exercise point out the difficulties with regulatory determination of student loan interest rates. An alternative approach

would be to use a more market-based mechanism for determining these rates. For the student loan program, this could mean using some form of auction system to determine who would receive the rights to originate student loans. The successful experience of the Health Education Assistance Loan (HEAL) program using an auction system for allocating the insurance authority for HEAL loans suggests that some form of auction could be considered for the Federal Family Education Loan program.

I hope that this summary has served to explain the basic structure of our analysis and our most important conclusions. I am happy to answer any further questions that you have about this report.

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
March 5, 1998

Contact: Peter Hollenbach
(202) 219-3302

PUBLIC DEBT OPENS BOOK-ENTRY CONVERSION WINDOW FOR STRIPPED U.S. TREASURY BEARER SECURITIES

Treasury's Bureau of the Public Debt announced today that it is opening a 6-month window to allow holders of physically stripped U.S. Treasury bearer principal pieces to convert them to book-entry. The window will open April 6, 1998 and close October 9, 1998.

Called BECCS, (BEarer Corpora ConversionS), the new program offers holders of the principal portions, or corpora, of U.S. Treasury bearer securities that were stripped of all non-callable coupons an opportunity to convert their stripped corpora to book-entry form. BECCS securities will be maintained in the commercial book-entry system.

BECCS benefits holders of physical corpora by eliminating the costs associated with the storage and safe keeping of physical securities. Book-entry also eliminates the risk of loss or destruction of these paper securities. Some 14,000 stripped corpora worth $6.2 billion are held by the public; this represents approximately 75% of the $8.6 billion in unmatured bearer principal.

Bearer corpora that are not subject to call will be converted to zero coupon book-entry securities which are transferable within BECCS.

Callable Bearer corpora, (therefore redeemable on call by the Treasury before maturity) that are submitted with all associated callable coupons will also be converted to zero coupon book-entry securities which are transferable within BECCS. The associated callable coupons will be linked with the BECCS security and cannot be separately traded. If callable bearer corpora are not submitted with all of their associated coupons, the corpus will be converted to non-transferable zero coupon book-entry securities within BECCS. Each individual callable coupon submitted will be converted to a non-transferable coupon within the existing CUBES program.

Public Debt is also reopening the CUBES (Coupons Under Book-Entry Safekeeping) window for the same 6-month period. CUBES lets holders of stripped bearer coupons convert them to book-entry and makes them readily transferable. Participation in the BECCS program is not a prerequisite to convert coupons to CUBES. The first CUBES window was opened in 1987 and reopened several times to offer additional opportunities for holders of coupons previously stripped from bearer Treasury securities the opportunity to convert those coupons to book-entry form.

(more)

RR-2279

Depository institutions interested in participating in the BECCS or CUBES program should contact either Grace Jaiman or JoAnna Grever of the Federal Reserve Bank of New York at (212) 720-8183 as soon as possible for more information on how to present the corpora and coupons. Entities other than depository institutions that hold stripped Treasury coupons and wish to convert those corpora and coupons to book-entry form under the BECCS and CUBES programs must arrange for the conversion through a depository institution.

Participating institutions will be charged a fee of $4.00 for each corpus or coupon converted and must bear the full cost and risk associated with the delivery of the securities to the Federal Reserve Bank of New York.

BECCS and CUBES are part of an ongoing effort to convert all outstanding paper securities to book-entry form. Holders of fully constituted bearer and registered paper securities can also convert their holdings to safe, convenient book-entry form and hold them in the commercial system or Treasury Direct.

o0o

PA-314

BECCS & CUBES 1998 OPEN SEASON
- Questions & Answers -

1. What is BECCS?

BECCS stands for BEarer Corpora ConversionS. BECCS is a new program that allows owners of stripped bearer corpora to convert these holdings to electronic book-entry form.

2. Why is Treasury offering BECCS ?

The program is being offered to assist holders of stripped bearer certificates. Holding investments in bearer form is risky. Bearer securities, whether stripped or not, are prone to theft and consequently institutions who safe keep these certificates incur a high cost to store and insure them. The BECCS program, like its predecessor CUBES, was established to address this problem.

3. What is a stripped bearer corpus?

A bearer security that has had all of its coupons removed (i.e. stripped). The principal portion is known as a corpus (plural, corpora).

4. What is a bearer security?

An engraved paper certificate (also known as a definitive security) that does not have an owner's name inscribed on it. There are no ownership records maintained for a bearer security. Ownership of a bearer security transfers by physical delivery of the certificate to another party. The interest payments for a bearer security are made by presenting a physical bearer coupon for payment. These coupons were originally attached and are associated with a corpus. Each coupon shows its payment due date and amount. An owner gets his or her interest payment by detaching the coupon and presenting it for redemption on or after the redemption date.

Public Debt stopped the original issue of bearer securities in 1983. There are no bearer certificates for any U.S. Treasury marketable security that was auctioned after 1982. There are currently only eighteen U.S. Treasury bonds left that were available in bearer form. The last bearer bond is subject to call on November 15, 2006 and will mature (if not called) on November 15, 2011.

5. What is CUBES?

CUBES stands for Coupons Under Book-Entry Safekeeping. CUBES is a program that has been in existence since 1987 which allows owners to convert their detached bearer coupons to book-entry form.

6. Why were the coupons detached?

Some investors would detach their future due coupons and sell them. These coupons would be bought and sold at a discount until they matured. Upon maturity, the owners would present the coupons for payment.

7. What are "Open Seasons?"

We will only accept detached coupons and stripped corpora for CUBES or BECCS conversions during pre-announced open seasons. We have had three previous open seasons for CUBES conversion in 1987, 1992 and 1996. During these previous CUBES open seasons, we would only accept detached bearer coupons that were not subject to call. For the combined BECCS and CUBES Open Season, which will run from April 6, 1998 to October 9, 1998, we will accept both callable and non-callable detached coupons and stripped bearer corpora. These bearer instruments will only be accepted for BECCS and CUBES conversions at the Federal Reserve Bank of New York.

8. What does "callable" mean?

When Treasury "calls" an issue it is declared matured before its stated maturity date. Once called, the issue will cease to earn interest and the principal will be redeemed. A security has to be designated callable when it is first issued. The callable period is usually the last five years.

An example of a callable issue is the 14% U.S. Treasury Bond 2006-11. This bond is subject to call on an interest payment date on or after November 15, 2006 and, unless it is called, will mature on November 15, 2011. This bond's interest payments are guaranteed up to and including the call date of November 15, 2006. The interest payments after November 15, 2006, because this issue can be called after this date, may not be paid and these payments are referred to as, "Callable."

9. What securities will be eligible for BECCS conversion?

Any stripped bearer security that won't mature or be subject to call until after November 15, 1998 will be accepted for BECCS conversion.

10. How many stripped bearer corpora are in circulation?

We do not have exact numbers because holders do not inform Treasury when they strip their bearer securities. We estimate, though, that there are 14,000 stripped bearer corpora in circulation with a total principal amount of $6.2 billion. The typical stripped corpora has a face value of either $100,000 or $1,000,000.

11. Will there be a processing fee charged for BECCS and CUBES conversions?

Yes, participants will be charged a separate and non-refundable conversion fee of $4.00 for each coupon and each corpus conversion transaction processed. Specifically, the fee will be charged as follows:

- each non-callable corpus will be charged a transaction fee of $4.00;
- each callable corpus submitted with all of its associated callable coupons will be charged one transaction fee of $4.00;
- each callable corpus submitted missing one or more of its associated callable coupons will be charged a $4.00 transaction fee for the corpus, plus a $4.00 fee for each separate callable coupon converted; and
- each detached coupon, whether callable or not, will be charged a $4.00 transaction fee.

12. Where are the BECCS and CUBES accounts maintained?

Both BECCS and CUBES are maintained exclusively in the commercial book-entry system operated through the Federal Reserve. Any financial institution or other entity that does not maintain a securities account directly at the Federal Reserve, can submit detached coupons and stripped corpora through a financial institution with a direct account.

13. What are the advantages of BECCS and CUBES conversions?

BECCS and CUBES benefits holders of physical corpora and detached coupons by eliminating the costs associated with the storage and safekeeping of physical securities. Book-entry also eliminates the risk of loss or destruction of these paper securities.

14. Why are conversions limited to open seasons?

There are not enough detached coupons and stripped corpora in circulation to justify offering continuous conversion services.

15. Can a BECCS security be reissued in definitive form?

No, we believe that offering definitive reissuance for BECCS defeats the purpose of the program and that the overall demand for definitive securities is practically non-existent.

16. Can a BECCS security be combined with its detached interest payments (i.e. reconstituted)?

No, reconstitution is not permitted under this program.

17. What about investors who own regular bearer and registered securities?

Investors can submit these definitive securities at any time for conversion to book-entry by presenting it to a Federal Reserve Bank or to their broker or financial institution.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

EMBARGOED FOR RELEASE AT 9:15 A.M. EST
March 6, 1998

REMARKS BY GARY GENSLER
ASSISTANT SECRETARY OF THE TREASURY
THE BOND MARKET ASSOCIATION ANNUAL MEETING
BOCA RATON, FLORIDA

I would like to thank The Bond Market Association for this opportunity to talk with you today. I am going to discuss the framework in which the Treasury addresses debt management and outline some of the key challenges likely to confront us in the near term.

Goals

Treasury debt management has three principal goals.

- First is sound cash management, assuring that Treasury cash balances are sufficient at all times.
- Second is achieving the lowest cost financing for the taxpayers, and
- Third is the promotion of efficient capital markets.

Guiding Principles

In achieving these goals, a number of interrelated principles guide us.

First is maintaining the "risk free" status of Treasury securities. This is accomplished through prudent fiscal discipline, and lest we forget the budget crisis of three years ago, timely increases in the statutory debt limit. Ready market access at the lowest cost to the Government is an essential component of debt management

Second is maintaining the consistency and predictability in our financing program. Treasury issues securities on a regular schedule with set auction procedures. This reduces uncertainty and helps minimize our overall cost of borrowing. Related to this principle, Treasury does not seek to time markets. Our sheer size does not practically permit an opportunistic approach. Over the long run, moreover, it is unlikely that we could consistently and successfully time markets. In

RR-2280

addition, any attempt to time markets inevitably would be perceived as signaling Administration views on interest rates and the economy.

Third, Treasury is committed to ensuring market liquidity. The U.S. capital markets are the largest and most efficient in the world. Treasury securities are the principal hedging instruments across the markets. Liquidity promotes both efficient capital markets and lower Treasury borrowing costs.

Fourth, Treasury finances across the yield curve, appealing to the broadest range of investors. A balanced maturity structure also mitigates refunding risks. In addition, providing a pricing mechanism for interest rates across the yield curve further promotes efficient capital markets.

Borrowing Needs and Sources
Let me turn to a brief discussion of our borrowing needs and sources.

At the start of the Clinton Administration the deficit was estimated to be $320 billion for 1998. OMB now projects it to be around $10 billion and the CBO released estimates this week which suggest a modest surplus. As a result of the deficit reductions we have seen in this decade, more than one trillion dollars in capital -- which would otherwise have been borrowed by the U.S. Government -- has been made available to help build America's future.

The decrease in the Government's net borrowing needs has been dramatic. Last year, net Treasury borrowing from the public represented only a 6% share of total borrowing in the credit markets. This compares with a nearly 60 % share in 1992. At this time, the financing accounts, which largely support direct student loans, are the greatest contributor to net borrowing needs. They are estimated to require approximately $16 billion in each of this year and next year.

Of course, our gross borrowing needs remain significant. This year, about $510 billion of privately held coupon securities mature. Next year, $505 billion will mature. In addition, there are currently $494 billion of privately held Treasury bills outstanding.

The bulk of our borrowing needs continues to be met through marketable debt issued to private investors. The issuance of non-marketable securities, however, has been filling an increasing share of our borrowing needs. Municipalities have been significant net purchasers of Treasury's state and local government series ("SLGS") securities. Due to recently declining yields, they have been refunding increasing amounts of their debt. We raised $16 billion of net new cash from SLGS last year and estimate that we will raise at least twice that amount this year.

The Federal Reserve System's portfolio also has been absorbing an increasing share of our declining financing needs. The System expands its Treasury portfolio in line with the growth in demand for bank reserves and currency. The Federal Reserve System's outright holdings of Treasury securities increased by $28 billion last year. This year, the System has been purchasing nearly one third of our bill auctions, up from approximately one quarter just two years ago.

Financing Tools

I would like to turn now to a discussion of the financing tools that we have at our disposal to manage the Federal debt in the new fiscal environment. Let me review some brief thoughts on issue sizes, issuance cycles, instruments offered, auction rules, and debt repurchases.

Issue sizes have been the principal tool used over the years to address changes in financing needs. The Treasury has varied the sizes of weekly bill offerings to respond to seasonal changes in cash balances, and generally has made gradual changes in the sizes of coupon issues to assure consistency and predictability. The issue sizes of notes and bonds, however, are now back to the levels which existed in 1992. Over that same period, the debt market has grown significantly. We recognize that this has presented challenges for market participants. The important relationship between issue size and liquidity is constantly considered. This week, we balanced these concerns when we cut the size of the 3 month bill auction while maintaining the size of the 6 month bill. In addition, issue sizes could be adjusted by changing the treatment of foreign official awards in coupon auctions. Instead of treating such awards as "add-ons," we could include them in the amount offered to the public, as we currently do in bill auctions.

Issuance cycles are determined largely by cash management needs. In addition, we also take into consideration the desire for a regular schedule of large liquid issues across the yield curve. Therefore, while issuance cycles are adjusted less often than issue sizes, it will continue to be appropriate to adjust them from time to time.

The specific instruments offered by Treasury have changed over time in response to market demands. The 4 year notes were discontinued in 1991 and 7 year notes were discontinued in 1993. Many in the audience remember the 20-year bond, which was discontinued in 1986. On the other hand, we initiated stripping of coupon securities in 1985.

We also are committed to the further development of inflation indexed securities. We believe that they provide an important diversification vehicle for both Treasury borrowing needs and investors. They also help promote capital markets in providing a pricing mechanism for real interest rates.

We customarily use Cash Management bills to bridge low points in cash balances. The Government's receipts and outlays have significant seasonal swings. The largest swings attend tax receipt dates, particularly in April. Monthly fluctuations in fiscal results have varied as much as $140 billion.

Treasury auction rules strive to ensure that Treasury rates are determined by the market and are the lowest cost to the taxpayers. The availability of auction awards on a noncompetitive basis and rules restricting award amounts help to promote broad distribution of Treasury securities. We also reopen bills on a regular basis and coupon securities, from time to time, to promote market liquidity. In addition, we are encouraged by the results of single-price auctions of 2 and 5 year notes.

The Borrowing Advisory Committee and several market participants have suggested that the Treasury consider open market buy-backs. This will be considered versus alternative financing tools, in light of the likelihood and potential amount of cost savings, the effect on the market for off-the-run securities, the duration and mechanics of any such plan, and it's possible budget scoring.

Summary

To help focus the discussion around these various financing tools, let me summarize a few points. The present issuance schedule and most recent issue sizes for coupon securities would approximately fund our maturing notes this year and next year. While recent issue sizes of bills have been at a seasonal low for an extended period, they are expected to increase modestly later this year. As our financing schedule is currently structured, however, we do not expect any net funding from bills this year or next. As mentioned earlier, SLGS will provide significant net funding this year. Assuming OMB budget projections, even if SLGS provide no net new funding next year, we will be roughly in balance for the next two years.

As you can see, we face interesting new challenges at Treasury. I look forward to your questions. Thank you.

-30-

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

EMBARGOED FOR RELEASE AT 3:00 PM
March 5, 1998

Contact: Peter Hollenbach
(202) 219-3302

PUBLIC DEBT ANNOUNCES ACTIVITY FOR SECURITIES IN THE STRIPS PROGRAM FOR FEBRUARY 1998

The Bureau of the Public Debt announced activity figures for the month of February 1998, of securities within the Separate Trading of Registered Interest and Principal of Securities program (STRIPS).

Dollar Amounts in Thousands

Principal Outstanding (Eligible Securities)	$1,220,100,790
Held in Unstripped Form	$987,496,101
Held in Stripped Form	$232,604,689
Reconstituted in February	$10,230,358

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.

RR-2281

o0o

PA-315

TABLE VI - HOLDINGS OF TREASURY SECURITIES IN STRIPPED FORM, FEBRUARY 28, 1998

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 Bonds:							
CUSIP:	Interest Rate:						
912810 DM7	11-5/8	912803 AB9	11/15/04	8,301,806	4,863,406	3,438,400	238,400
DQ8	12	AD5	05/15/05	4,260,758	2,942,108	1,318,650	261,900
DR6	10-3/4	AG8	08/15/05	9,269,713	7,231,313	2,038,400	66,400
DU9	9-3/8	AJ2	02/15/06	4,755,916	4,745,100	10,816	0
DN5	11-3/4	912800 AA7	11/15/14	6,005,584	2,719,184	3,286,400	377,600
DP0	11-1/4	912803 AA1	02/15/15	12,667,799	11,407,479	1,260,320	408,480
DS4	10-5/8	AC7	08/15/15	7,149,916	6,650,076	499,840	128,960
DT2	9-7/8	AE3	11/15/15	6,899,859	5,491,859	1,408,000	81,600
DV7	9-1/4	AF0	02/15/16	7,266,854	6,711,654	555,200	137,600
DW5	7-1/4	AH6	05/15/16	18,823,551	18,261,151	562,400	0
DX3	7-1/2	AK9	11/15/16	18,864,448	17,945,328	919,120	49,840
DY1	8-3/4	AL7	05/15/17	18,194,169	8,003,929	10,190,240	340,160
DZ8	8-7/8	AM5	08/15/17	14,016,858	7,770,458	6,246,400	230,400
EA2	9-1/8	AN3	05/15/18	8,708,639	2,961,439	5,747,200	44,800
EB0	9	AP8	11/15/18	9,032,870	1,950,670	7,082,200	163,800
EC8	8-7/8	AQ6	02/15/19	19,250,798	5,330,798	13,920,000	363,200
ED6	8-1/8	AR4	08/15/19	20,213,832	17,699,592	2,514,240	197,440
EE4	8-1/2	AS2	02/15/20	10,228,868	5,080,868	5,148,000	53,200
EF1	8-3/4	AT0	05/15/20	10,158,883	3,344,323	6,814,560	71,520
EG9	8-3/4	AU7	08/15/20	21,418,606	5,043,406	16,375,200	466,240
EH7	7-7/8	AV5	02/15/21	11,113,373	10,073,373	1,040,000	88,000
EJ3	8-1/8	AW3	05/15/21	11,958,888	4,606,248	7,352,640	60,160
EK0	8-1/8	AX1	08/15/21	12,163,482	5,115,802	7,047,680	662,720
EL8	8	AY9	11/15/21	32,798,394	7,594,844	25,203,550	980,400
EM6	7-1/4	AZ6	08/15/22	10,352,790	8,826,390	1,526,400	151,200
EN4	7-5/8	BA0	11/15/22	10,699,626	2,922,026	7,777,600	144,000
EP9	7-1/8	BB8	02/15/23	18,374,361	10,779,161	7,595,200	432,000
EQ7	6-1/4	BC6	08/15/23	22,909,044	18,215,828	4,693,216	308,416
ES3	7-1/2	BD4	11/15/24	11,469,662	2,968,542	8,501,120	345,360
ET1	7-5/8	BE2	02/15/25	11,725,170	2,681,970	9,043,200	348,800
EV6	6-7/8	BF9	08/15/25	12,602,007	11,439,127	1,162,880	718,720
EW4	6	BG7	02/15/26	12,904,916	12,555,816	349,100	133,500
EX2	6-3/4	BH5	08/15/26	10,893,818	10,189,018	704,800	216,000
EY0	6-1/2	BJ1	11/15/26	11,493,177	11,159,977	333,200	0
EZ7	6-5/8	BK8	02/15/27	10,456,071	8,924,871	1,531,200	54,400
FA1	6-3/8	BL6	08/15/27	10,735,756	10,410,956	324,800	0
FB9	6-1/8	BM4	11/15/27	22,518,905	22,398,905	120,000	0
Total Treasury Bonds..........................				480,659,167	307,016,995	173,642,172	8,325,216

TABLE VI - HOLDINGS OF TREASURY SECURITIES IN STRIPPED FORM, FEBRUARY 28, 1998 – Continued

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 WE8	B	9	912820 AN7	05/15/98	9,165,387	6,187,187	2,978,200	4,000
WN8	C	9-1/4	AP2	08/15/98	11,342,646	7,167,446	4,175,200	66,400
WW8	D	8-7/8	AQ0	11/15/98	9,902,875	5,688,475	4,214,400	9,600
XE7	A	8-7/8	AR8	02/15/99	9,719,623	7,814,023	1,905,600	62,400
XN7	B	9-1/8	AS6	05/15/99	10,047,103	6,511,103	3,536,000	16,000
XW7	C	8	AT4	08/15/99	10,163,644	6,948,694	3,214,950	128,650
3H3	AK	5-3/4	CB1	09/30/99	17,487,287	17,269,687	217,600	0
3K6	AL	5-5/8	CD7	10/31/99	16,823,947	16,606,347	217,600	0
YE6	D	7-7/8	AU1	11/15/99	10,773,960	6,810,760	3,963,200	14,400
3P5	AM	5-5/8	CG0	11/30/99	17,051,198	16,865,598	185,600	0
3R1	AN	5-5/8	CJ4	12/31/99	16,747,040	16,647,840	99,200	0
3U4	Y	5-3/8	CM7	01/31/00	17,502,031	17,502,031	0	0
YN6	A	8-1/2	AV9	02/15/00	10,673,033	8,160,233	2,512,800	20,800
YW6	B	8-7/8	AW7	05/15/00	10,496,230	5,665,830	4,830,400	1,600
ZE5	C	8-3/4	AX5	08/15/00	11,080,646	7,164,646	3,916,000	61,920
ZN5	D	8-1/2	AY3	11/15/00	11,519,682	7,476,082	4,043,600	51,600
3M2	X	5-3/4	CF2	11/15/00	16,036,088	16,036,088	0	0
ZX3	A	7-3/4	AZ0	02/15/01	11,312,802	8,177,602	3,135,200	5,600
3W0	S	5-3/8	CP0	02/15/01	15,362,228	15,362,228	0	0
A85	B	8	BA4	05/15/01	12,398,083	9,066,908	3,331,175	138,300
B92	C	7-7/8	BB2	08/15/01	12,339,185	9,043,185	3,296,000	460,800
D25	D	7-1/2	BC0	11/15/01	24,226,102	20,073,142	4,152,960	88,560
F49	A	7-1/2	BD8	05/15/02	11,714,397	9,997,517	1,716,880	99,440
G55	B	6-3/8	BE6	08/15/02	23,859,015	22,599,815	1,259,200	24,000
3J9	M	5-7/8	CC9	09/30/02	12,806,814	12,771,614	35,200	1,600
3L4	N	5-3/4	CE5	10/31/02	11,737,284	11,661,284	76,000	0
3Q3	P	5-3/4	CH8	11/30/02	12,120,580	11,920,580	200,000	6,400
3S9	Q	5-5/8	CK1	12/31/02	12,052,433	12,052,433	0	0
3V2	C	5-1/2	CN5	01/31/03	13,100,643	13,100,643	0	0
J78	A	6-1/4	BF3	02/15/03	23,562,691	23,081,219	481,472	201,472
L83	B	5-3/4	BG1	08/15/03	28,011,028	27,579,828	431,200	0
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	14,431,572	8,800	152,000
Q88	C	7-1/4	BK2	08/15/04	13,346,467	12,823,267	523,200	0
R87	D	7-7/8	BL0	11/15/04	14,373,760	14,373,760	0	289,600
S86	A	7-1/2	BM8	02/15/05	13,834,754	13,834,194	560	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	15,205,120	4,800	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	13,043,518	60,160	0
2U5	C	6-5/8	BX4	05/15/07	13,958,186	13,937,386	20,800	0
3E0	D	6-1/8	CA3	08/15/07	25,636,803	25,616,003	20,800	0
3X8	B	5-1/2	CQ8	02/15/08	13,583,412	13,583,412	0	0
Total Treasury Notes					698,049,401	639,086,884	58,962,517	1,905,142
Treasury Inflation-Indexed Notes:								
CUSIP:	Series:	Interest Rate:						
912827 3A8	J	3-5/8	912820 BZ9	07/15/02	16,938,273	16,938,273	0	0
2M3	A	3-3/8	BV8	01/15/07	16,043,663	16,043,663	0	0
3T7	A	3-5/8	CL9	01/15/08	8,410,286	8,410,286	0	0
Total Inflation-Indexed Notes					41,392,222	41,392,222	0	0
Grand Total					1,220,100,790	987,496,101	232,604,689	10,230,358

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) 482-1986. The balances in this table are subject to audit and subsequent adjustments.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
Text as Prepared for Delivery
March 5, 1998

Ellen W. Lazar, Director
Community Development Financial Institutions Fund
House Subcommittee on VA, HUD, and Independent Agencies
Hearing on FY 1999 Appropriations

Chairman Lewis, Congressman Stokes and distinguished members of the Subcommittee, it is a distinct pleasure to be before you today and represent the Community Development Financial Institutions Fund. I am Ellen Lazar and I have been the Director of the Fund for two months. Before I begin my testimony, I would like to introduce you to other members of the Fund who are with me: Paul Gentille, Deputy Director for Management/Chief Financial Officer of the Fund and Maurice Jones, Deputy Director for Policy and Programs at the Fund.

I would like to begin by thanking Chairman Lewis, Ranking Member Stokes and other members of the Committee for your continued support for the Community Development Financial Institutions Fund. For your efforts, the Treasury Department and I are deeply grateful. The funding you provide is making a difference in the lives of people that are often left out of the economic mainstream.

The CDFI Fund, which was authorized by the Community Development and Regulatory Improvement Act of 1994, was created to address the critical problems of urban, rural and Native American communities that often lack adequate access to capital. Access to capital is an essential ingredient for creating and retaining jobs, developing affordable housing, revitalizing and maintaining neighborhoods, building local economies, and enabling people to realize their hopes and dreams. There are significant capital gaps in distressed communities, and this market niche is not often recognized or well understood. This makes it difficult for conventional sources of capital to effectively serve low income people.

RR-2282

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

Despite the great strides that have been made as a result of a strengthened Community Reinvestment Act in promoting access to credit in underserved neighborhoods, market imperfections still keep capital out of these communities. Today, low income communities are faced with many challenges -- such as moving families from welfare to work, providing basic financial literacy skills, and training unskilled workers to become job ready.

For example, there is the single mother of three in Charlotte, North Carolina who recently moved to escape an abusive spouse but found it impossible to service the debts caused by one of her children's past medical expenses on her modest salary as a teacher's aide. The School Workers Federal Credit Union was able to arrange a debt consolidation loan and help her not only better manage her debts but also begin a savings program. She has now been able to make a $1500 down payment on a house. Thanks to the $150,000 grant from the CDFI Fund it received last year, this Credit Union is now poised to help many others work their way out of debt and into asset building for their future.

The CDFI Fund represents a new direction in community development. The Fund's programs leverage limited public dollars to build the capacity of private sector institutions to finance community development needs, and the programs help forge partnerships between communities and mainstream financial institutions. The Fund's efforts are designed to turn dysfunctional markets into well functioning local economies.

The President and Congress working in partnership created the Fund in 1994. The Fund's vision, and its approach represent a true innovation as a Federal initiative. We are now beginning to see the first glimmer of what the Fund can accomplish by assisting communities to realize their potential.

BUILDING STRONG AND EFFECTIVE MANAGEMENT SYSTEMS

The Department's and my top priorities will continue to be strengthening management and internal systems and procedures of the Fund. Understanding the importance of a sound management and program infrastructure, I wish to assure you that I and the Department are committed to developing and implementing the necessary improvements to the Fund's financial and program management, reporting systems, internal controls, operating procedures, and awards monitoring. The Fund's new leadership is committed to improving financial management and awards monitoring by ensuring strong program and financial structure, effective internal controls, and increasing the use of information technology.

To date, we have already made significant strides toward achieving these objectives. I am very pleased to report to the Subcommittee that in the Fund's first financial audit for Fiscal Years 1995 through 1997, it received an unqualified opinion which means that our auditors opined that our financial statements fairly and accurately present the financial position of the Fund. As expected, the audit confirmed our own findings that the Fund had material weaknesses in prior fiscal years. Using the Fund's FMFIA and audit processes and corrective action plans, we will correct all material weaknesses and findings during FY 1998. As noted in our Annual Report, the Fund is taking critical steps to strengthen and build its management structure and staff. In the first quarter of 1998, a Deputy Director for Management/Chief Financial Officer, with significant financial management experience in government, was appointed. The Fund has also moved swiftly to fill other management positions that are critical for ensuring proper internal controls and accountability including an awards manager, an accountant, a Deputy Director for Policy and Programs and program managers for each program.

A priority for the Fund during FY 1998 and FY 1999 will be to recruit, develop and retain high caliber staff. The Fund requires a highly trained staff due to the complexities and diversity of the community development finance industry. We will reduce our reliance on outside contractors and enhance our in-house capacity and expertise to meet the needs of the community development field. Special emphasis is being placed on the recruitment and hiring of additional Fund staff and the dramatic reduction of the utilization of outside contractors.

The Fund is committed to managing for results and I am planning to lead our management in a rigorous review of the Fund's current 5 year strategic plan, goals and performance measures within the next couple of months. If appropriate, I will revise our 5 year strategic plan and goals. I intend to show an important linkage between the Fund's goals and measures and those goals and measures we require from our awardees. Our strategic plan will be accomplished with appropriate Congressional consultation, as required by GPRA, and I look forward to working with the Committee on this important planning process.

PROGRAM OVERVIEW AND PRINCIPLES

The Fund seeks to promote economic revitalization and community development through investment in and assistance to community development financial institutions (CDFIs) and through encouraging insured depository institutions to invest in CDFIs and increase lending, investment and services within distressed communities. The Fund's programs are built on several key principles. First, stimulation of private markets is critical for rebuilding economically distressed areas. Second, building the capacity of community based institutions is critical for providing localities with the tools necessary to serve many underserved communities. And third, an initiative that promotes private sector strategies to achieve public policy goals must be based on performance and maximizing impact. The Fund has four programs that collectively address these principles: Its two main programs - the Community Development Financial Institutions (CDFI) Program and the Bank Enterprise Award (BEA) Program; and its other initiatives, the Training Program, Technical Assistance Program, and the Presidential Awards for Excellence in Microenterprise Development.

Stimulating Private Markets
The CDFI Program seeks to stimulate markets and spark economic activity by funding organizations that emphasize private sector market discipline. The Fund makes investments in,

and provides technical assistance to, CDFIs. CDFIs are private for-profit and nonprofit financial institutions with community development as their primary mission. CDFIs include community development banks, community development credit unions, non-profit loan funds, micro-enterprise loan funds, and community development venture capital funds.

During its 1996 and 1997 rounds, the Fund awarded a total of $75.5 million in assistance to nearly 75 CDFIs serving urban, rural and Native American communities. These investments will leverage new capital and generate new community development activity over the next several years.

The CDFI Program also stimulates private investment by requiring that all financial assistance be matched on at least a one-to-one basis from sources other than the Federal government. As a result, the vast majority of all matching funds are raised from private sector sources. For example, during the 1996 funding round, nearly three-quarters of our awardees derived all of their matching funds from private sources including banks, corporations, foundations and individuals.

Collectively, 1996 and 1997 CDFI Program awardees are located in 30 states and the District of Columbia. Half of the awardees serve predominantly urban areas, one-third serve predominantly rural areas, and the balance serve a combination of the two. These organizations provide a wide range of lending products, investments and services within their communities. They finance affordable housing projects, small businesses, microenterprises, and community facilities. Awardees are selected based on factors including potential community development impact, financial strength, organizational capacity, and quality of their business plan.

The Fund's 1996 investment in Northeast Ventures of Duluth, Minnesota illustrates how the Fund sparks economic activity. Larry Van Iseghem is a chemist with an environmental mission. Larry's company, located in a rural and declining region of eastern Minnesota, developed and brought to market an environmentally benign, water based coating for heating and cooling equipment which adds energy efficiency to furnaces and air conditioners while preventing corrosion. An early investment by Northeast Ventures allowed Mr. Iseghem to start his company and to expand and move into development of new products. "Some potential investors were wary of my ideas, because they weren't sure environmental benefits and economic viability could go together," Larry explains, "Northeast Ventures Corporation didn't consider this a liability, but a plus. Environmental responsibility is one of their criteria."

In addition to CDFIs, traditional financial institutions play a key role in community development lending and investing. The Bank Enterprise Award (BEA) Program stimulates private markets by providing incentives for banks and thrifts to invest in CDFIs and to increase their community development lending, investment and service activities within distressed communities. In 1996 and 1997, the CDFI Fund made 92 awards totaling $30 million under the BEA Program. During these rounds, BEA awardees collectively provided $130 million in financial and technical assistance to CDFIs and generated $140 million in loans, investments and services within high poverty neighborhoods. The Program has served awardees in 24 states and the District of Columbia. The Program has awarded funds to banks and thrifts as small as $21 million in total assets to as large as $320 billion in total assets. Program participants represent a broad spectrum of the industry including national banks, state chartered commercial banks, Federal savings banks and thrifts, mutual savings banks and credit card banks.

The Bank of America Community Development Bank (B of A) was awarded $1.6 million in the 1996 funding round for increasing its multifamily housing, commercial real estate and business loans in distressed communities across California. The Bank made nearly $25 million in loans in targeted neighborhoods meeting the BEA Program's distress criteria, including $9.5 million in commercial real estate loans, $13.2 million in multifamily loans, and $2.2 million in business loans. The Bank projects that these loans will generate more than 185 units of affordable housing and 300 jobs. B of A's increased multifamily lending activity has helped provide a vital source of affordable housing for low-income families in targeted neighborhoods in San Francisco, Modesto, and Los Angeles, including the projects described below:

- a $2.6 million construction loan to support the acquisition and rehabilitation of a deteriorated residential hotel in San Francisco's Tenderloin neighborhood into 58 units of quality affordable housing for formerly homeless individuals; and
- a $6.8 million loan to support construction of a new 79-unit apartment building located in Downtown Los Angeles. The building serves households earning less than 60% of Los Angeles County's median income.

In addition to significantly increasing its lending activity in eligible distressed neighborhoods - activity that qualified it for its award - B of A, together with Bank of America, F.S.B., has invested its entire combined Bank Enterprise Award back into the community. $1.1 million of the award money has been used to established the Bank of America Leadership Academy, a nine-month program that provides training for senior management of community development organizations. The B of A Leadership Academy is funded jointly by Bank of America Community Development Bank, Bank of America, F.S.B., and the Local Initiatives Support Corporation (a certified CDFI and a 1996 CDFI Program awardee); and is conducted by the Development Training Institute. The B of A Leadership Academy is funded for three nine-month programs. Each session trains 35 executive directors or senior staff of community-based development organizations that are at least five years old and have completed at least three projects.

An additional 20 percent of the combined awards will go to the Low Income Housing Fund, a certified CDFI and a 1996 CDFI Program awardee which provides loans for very low-income housing development across the country.

Capacity Building

The Fund builds the financial capacity of CDFIs by providing financial assistance in the form of equity investments, grants, loans or deposits to enhance the capital base -- or the financial muscle -- of these organizations to make loans, investments, provide technical assistance or otherwise address unmet community development needs. Unlike programs in which resources are provided for specific projects, under the CDFI Program the Fund invests in CDFIs as *institutions* in order to promote their long-term viability and ability to serve distressed communities.

Appalbanc, a multifaceted CDFI that serves 85 extremely distressed counties in West Virginia, Kentucky, Tennessee, and Virginia, has developed an effective strategy to promote housing development and homeownership. Since its inception, Appalbanc and its affiliates have financed the development or rehabilitation of more than 20,000 homes. The $1.33 million in assistance provided by the CDFI Fund will be used to expand Appalbanc's activities in this very needy region.

The Fund builds the organizational capacity of CDFIs through several mechanisms. First, as part of the CDFI Program funding rounds, the Fund conducts "debriefings" with each applicant that was turned down for funding. Through this debriefing, applicants are given valuable feedback about the strengths and weaknesses of their organizations as observed by those involved in reviewing their requests for funding. Many of these organizations have used the information from these debriefings to address their weaknesses, build on the strengths of their operations and improve performance.

Second, the Fund provided assistance to two national intermediaries in 1997 who will provide intensive financial and technical assistance to small, nascent and growing CDFIs. CDFI Intermediaries are organizations that focus their financing activities primarily on other CDFIs. By providing financial assistance to specialized intermediaries, the Fund strengthens its capacity to support the development and enhancement of the CDFI industry. Together, the two national intermediaries selected by the Fund in 1997 are expected to serve nearly 200 CDFIs over the next five years.

Finally, this year the Fund will launch two new initiatives to build the organizational capacity of CDFIs and other organizations engaged in community development finance activities. The first initiative is a $5 million technical assistance program that will provide grant monies to CDFIs for capacity building activities. The second initiative is a new training program that will enhance skill development among CDFIs and other members of the financial services industry that are engaged in community development finance activities. The Fund expects to provide up to $15 million for this program.

The Fund expects to publish a Notice of Funds Availability regarding the first round of the technical assistance program this month. Later in 1998, the Fund will launch the second prong of this strategy. It will select organizations to provide, on the Fund's behalf, training to CDFIs and other members of the financial services industry.

By building the capacity of CDFIs, the Fund helps these organizations to enhance the economic well being of people in their communities.

Promoting Performance and Impact

The Fund's investments are making a difference in communities. For example, one 1996 CDFI Program Awardee, Cascadia Revolving Fund, made a loan to Nancy Stratton of Port Haddock, WA to open a day care center in her home. Nancy knew that her previous credit problems and lack of business experience would prevent her from obtaining financing through traditional sources. Cascadia worked with Nancy to refine her business plan and make a loan to help her start a now successful business. A 1996 BEA Program Awardee, Central Bank of Kansas City, was awarded $99,869 for increasing its deposit-taking activities and consumer and commercial real estate, housing, and business loans in distressed neighborhoods. During the first six months of 1996, this bank provided more than $8.3 million in loans and services. In addition to facilitating neighborhood redevelopment through its single- and multi-family housing activities, the bank made a significant loan to help a major manufacturer and employer remain in the community.

As you know, the Fund also promotes performance and impact by requiring all CDFIs selected to receive assistance to enter into an agreement to meet performance goals. These performance goals are tailored to each CDFI based on its Comprehensive Business Plan. Performance goals may be based on the amount of lending or investment activity projected, the number of people to receive technical assistance, or other measures of a CDFI's success in meeting its community development objectives. The performance levels for each CDFI are intended to be challenging and are based on the projections made in an Awardee's application for funding, the amount of assistance provided by the Fund, and the CDFI's financial and organizational capacity.

In the Fund's Bank Enterprise Award Program, the Fund encourages performance by requiring awardees to fully complete their projected activities before their awards will be disbursed. Thus, each Federal dollar disbursed has already made an impact within a local community before it is received by an Awardee.

The Fund also encourages performance within the CDFI industry by promoting best practices. For example, the Fund's Presidential Awards for Excellence in Microenterprise Development is a non-monetary program that recognizes and seeks to bring attention to organizations that have demonstrated excellence in promoting micro entrepreneurship. By recognizing outstanding microenterprise organizations, the Presidential Awards seek to promote sound lending practices and bring wider public attention to the important role and successes of microenterprise development especially in enhancing economic opportunities among women, low income people, and minorities who have historically lacked access to traditional sources of credit.

We are beginning to see the impact that the Fund can make in underserved communities and among people that are often left out of the economic mainstream. This year, the Fund will be launching an impact analysis project that will provide valuable information on how the Fund's investments have created benefits within communities. As part of demonstrating impact, the Fund will continue to expand its communication tools, including development of a web site and publication of regular newsletters designed to publicize information about community development finance industry trends and best practices, as well as the Fund's activities.

In FY 1998, the Fund was appropriated $80 million. The Fund intends to use these funds on the Core Component of the CDFI Program, the Intermediary Component of the CDFI Program, the BEA Program, a new Technical Assistance Program and a new Training Program. The Fund expects to use $5.5 million for its operations.

The Fund has established key goals with respect to its program activities. Under the CDFI Program, the Fund will seek to increase the cumulative number of CDFIs receiving financial and technical assistance under the CDFI Program. For this purpose, the Fund has requested a budget increase in FY 1999 to $125,000,000.

Increased funding will allow the Fund to increase the cumulative number of CDFIs receiving financial and technical assistance under the CDFI program. Financial assistance to CDFIs enhances private sector capacity, directly addresses community development financing needs in distressed communities, and strengthens CDFI's long term capacity to help restore healthy private market activity. The increased funding will also be used to expand the BEA Program, training program and technical assistance program and in part to help accelerate the development of a secondary market for community development loans.

Summary

Mr. Chairman, members of the Committee, thank you for giving me this opportunity to provide an overview of the Fund's mission, it's accomplishments and plans for the future. I also look forward to working with you over the course of this year's appropriations process. I would be very pleased to respond to any questions you may have about my testimony or about the Fund and its activities.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
March 5, 1998

Statement by Treasury Secretary Robert E. Rubin on IMF Legislation

I welcome the House Banking Committee's action today to support full funding for the IMF. This is a very significant step and I express my appreciation to the Members of the Committee for working with us on these important issues.

It is particularly important that we received strong bipartisan support for both an increase in our IMF quota subscription and our participation in the New Arrangements to Borrow. We urge Congress to act quickly to strengthen the resources of the IMF so that we have the capacity to deal with risks to financial stability around the world.

-30-

RR-2283

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

EMBARGOED UNTIL 1:20 p.m. EST
Text as Prepared for Delivery
March 6, 1998

TREASURY SECRETARY ROBERT E. RUBIN
GREATER NEW YORK VOLUNTEER COMMITTEE
ANNUAL U.S. SAVINGS BOND KICKOFF LUNCHEON
THE PLAZA HOTEL, NEW YORK CITY

I want to thank you all for being here today to kick-off this year's Savings Bond Campaign, and to honor the individuals and firms who contributed so much time and effort to make last year's campaign a success.

Let me start by personally thanking Frank Bennack for the outstanding job he did leading the New York Campaign last year.

This year, Frank Newman has agreed to lead the Campaign. Let me present this Appointment Certificate to Frank. Under his leadership, I know we'll have a successful campaign.

Next, I'd like to ask Russell Deyo to join me. They represent Johnson&Johnson, which is the country's participation leader this year, with 78 percent of their employees buying bonds and which has been a strong supporter of Savings Bonds for years. It's a great pleasure to present you with our Golden Eagle Award for the tremendous job all of you did with last year's campaign.

In January I presented the Golden Eagle Award to Harry Kamen of Metropolitan Life, which has also done an outstanding job in promoting the use of Savings Bonds by their employees, and Dave Levene of Met Life is here with us today.

Since we are here today because of Savings Bonds, which are about our economy, I would like to use our time together to discuss the state of our economy today, the steps we need to take to foster a strong economy for the future, including by responding to the financial situation in Asia, and the problem of financial instability more instability more generally, and the important role of Savings Bonds to our economic well-being. Overall, we have much to feel good about, with respect to our country's economy, but -- at least in my view -- serious issues we need to face.
RR-2284

To start with the economy, today, the United States has the strongest major economy in the world, and we are viewed as a country that has put its economic house in order. Unemployment is 4.7 percent and it has been under 6 percent for the last three years. The economy has generated over 14 million new jobs over the last five years, inflation has remained low and real wages are rising.

On the private sector side, this success has been critically fueled by the remarkable job American business has done over the past decade in restoring its competitiveness in a broad array of industries, after having been written off by much of the world in the proceeding decade. On the public sector side, key and indispensable to the economic conditions of the past five years has been an economic strategy grounded in fiscal responsibility, beginning with the deficit reduction act of 1993, opening markets, and for the longer term, public investment in our people to promote productivity.

It seems to me that the key now is not to let the progress we have made mask the challenges we face in building a prosperous economy and society for the years and decades ahead. If the United States were a business, and we were enjoying a period of success such as the past five years, we would think about what might be the vulnerabilities to our competitive position five, ten or fifteen years from now, and then we would position ourselves to meet those challenges. That is exactly what we have tried to do in this Administration, and in that context, I'd like to discuss five principal challenges that I believe we must meet to continue our present economic success in the years and decades ahead, in addition to the private sector maintaining its competitiveness.

First, we must remain diligent in keeping our nation's fiscal house in order. The President has made what I believe is a sensible proposal on what to do with budget surpluses: put the money away until we address Social Security reform. What we must not do is anything -- including tax cuts that are not fully paid for — to threaten the fiscal discipline we have worked so hard to restore. Fiscal discipline is not an easy path, but I believe it is the essential path.

Second, we must continue to work to improve education in all of its aspects, but especially our public school system. In today's global economy, education is the key to prosperity for an individual, and for a country. This Administration has focused intensely on improving education from K-12 and beyond by expanding Head Start, proposing volunteer national standards, proposing in the present budget funding for school construction and hiring more teachers to reduce class size, and post secondary school tuition tax credits enacted last year. But, last week's report that American high school students ranked third to last in math and science in a global survey indicates how much needs to be done.

Third, we face the challenge of the tremendous social costs and loss of productivity that results from having millions of Americans left out of the economic mainstream -- a problem that is most closely associated with our inner cities. This is a problem that affects all of us, no matter where we live or what our incomes may be. The Administration has focused on a three part program -- investing in people, strengthening public safety, and expanding access to capital -- to foster growth in economically distressed areas.

When I was still in the White House, a reporter from a well respected European weekly interviewed me, and at the end, said that our economy was doing very well but that ten or twenty years from now we'd be a second tier economy. I asked why he thought that, and he said the answer was our public schools and our inner cities. My own view, now that I've spent five years focusing on our economy and economies around the world, is that we have tremendous strengths and a great potential in a global economy, but we do need to more effectively deal with the critical issues that reporter identified if we are to fully realize that potential.

Fourth, we must continue to be deeply engaged in providing leadership on the issues of international economic policy. A successful strategy on these issues includes three components: first, opening markets and trade liberalization; second, promoting growth and reform in the developing world and transitional countries; and third, dealing with the problems of financial instability and crisis, both when they occur, and in the long term by strengthening the architecture of the international financial system. Let me discuss the third point of financial instability for a few minutes.

I experienced the development of the international financial markets and the global economy when I was in investment banking and I know that many of you all have lived this in your own businesses. Over the last 20 years, most of your businesses have gone from being predominantly domestic to being true global entities, and developing countries have gone from being largely irrelevant to our economic well being to absorbing over 40% of our exports. However, just as these developments have brought great opportunities, there have also been new risks, as we saw in Mexico in 1994 and now in Asia. I believe that our economic well-being in the years and decades ahead will be critically affected by our ability to make the most of those opportunities and to effectively manage the risks.

The interdependence of today's global economy -- and the need to exercise U.S. leadership to protect and promote our interests -- has been brought home by the recent situation in Asia. As you well know, economic instability in Asia has weakened affected countries' markets for our goods and has weakened their currencies, which can adversely affect the competitiveness of our goods around the world. Moreover, if the problem were to spread to developing countries around the globe, it would exacerbate these effects and the potential impact to our economy could be severe. By doing everything sensible to help these Asian countries get back on track, we support our exports to the region and help strengthen their currencies, which helps the competitiveness of our goods in world markets and reduces the risk that financial instability will spread to other developing countries.

The United States has exercised very strong leadership throughout this situation to help resolve the Asian crises. We have worked with individual nations to contain the crisis, and through all of this, the United States has strongly supported the IMF, which has been the central institution in the effort to resolve the financial crises in Asia through reform programs focused predominantly on structural reforms to address the specific causes of the crisis in each nation.

We are working with Congress at the same time to gain the necessary funding for our contribution to the IMF to help enable the IMF to have the capacity to respond if the crisis were to worsen or spread. While we think the risks of that happening are low, if it does happen the international community needs to have the capacity to respond effectively.

Even as we work to secure this funding and to solve the immediate problems in Asia, we are working to build a new architecture for the international financial system. While the global economy and the global financial markets have grown very rapidly and become very sophisticated in recent years, the institutions for preventing and dealing with these crisis has changed far less. At Treasury, we have been working with the Federal Reserve Board to make that architecture as modern as the markets. But, these are deeply complicated problems and major steps forward will take time.

As the situation in Asia demonstrates, U.S. leadership in the global economy is critical to our own well-being. Yet one of the lessons I draw from the past few months is that there needs to be a redoubled effort by all of us to communicate with the American public the dynamics of the new global economy and the importance of U.S. leadership in the global economy to our well being. I am deeply concerned that public support for forward looking international economic policies may be moving backwards at a time when this country's economic, national security and geopolitical interests require just the opposite.

One of the real problems that stands in the way of building support for a forward-looking international agenda is that the benefits of globalism are not evenly shared. One troubling facet of the global economy is that workers with high skills and in high-value added industries are doing very well, but low-skilled workers and workers with low education are not doing very well. Ultimately, this is an issue we need to address if we are to build support for flexible labor markets, trade liberalization and maintaining leadership in the global economy. And the way to address it is to have forward looking domestic policies that compliment forward looking international policies.

Our final challenge must be to make it easier for families to save and for the nation to expand its savings. For the nation, more savings means more investment and greater productivity. For families, that translates into higher wages and greater opportunity.

Increasing the savings rate has been a high priority for President Clinton -- and encouraging Americans to buy Savings Bonds plays a crucial role in our efforts. The work you are doing with the Savings Bonds program helps make your employees lives more secure financially. You help get them to focus on their future needs -- a first home, perhaps, or children's education or a secure retirement. And then, you help them to take action. And it also helps the nation increase its savings rate, both directly and because the Savings Bond campaign is also an education campaign on the importance of saving. As part of this, Savings Bonds have a special role in introducing the concept of saving to kids. I can remember when I was very young, and I received my first Savings Bond from my grandfather -- and that introduced me to the concept of saving, and Savings Bonds are still widely used by parents and grandparents as gifts to their kids and grandchildren.

In conclusion, let me say that the United States is well positioned to maintain a strong economy for the future and to be a leader in the global economy. But our success depends on business doing what it must to maintain its competitiveness and government doing what it must to address the issues I have discussed. If we work together, we can keep the economy on the right track and meet the challenges of the new century. Thank you very much.

-30-

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

March 6, 1998

Monthly Release of U.S. Reserve Assets

The Treasury Department today released U.S. reserve assets data for the month of February 1998.

As indicated in this table, U.S. reserve assets amounted to $70,628 million at the end of February 1998, up from $70,003 million in January 1998.

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/
1998						
January	70,003r	11,046r	9,998	13,975	16,945	18,039
February	70,628p	11,046p	10,217	14,106	17,124	18,135

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.

p Preliminary

r Revised

RR-2285

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

EMBARGOED UNTIL 9:15 AM
Text as Prepared for Delivery
March 9, 1998

"On The IMF and the Capital Account"
Remarks by Lawrence H. Summers
Deputy Secretary of the Treasury
International Monetary Fund
Washington, DC

Thank you. It's good to see so many old friends. Let me start by applauding the International Monetary Fund for organizing this conference. Some would consider it strange for the IMF to stick its head above the parapet on this question at a time when many are questioning the benefits of free and open global financial markets (and a good few are questioning the benefits of the IMF.) I consider it timely -- and absolutely essential. If there is one lesson to be drawn from the events of the recent past, it is that capital account issues are here to stay -- and they are issues with which the Fund will increasingly have to deal. Its charter ought to give it the tools to accomplish that task.

The emergence of today's global financial markets can be likened to the invention of the jet airplane. We can go where we want to go much more quickly, we can get there more comfortably, more cheaply and most of the time more safely -- but the crashes when they occur are that much more spectacular.

We regulate air safety. No-one sensible is against jet airplanes. But everyone sensible is for new kinds of regulations because they exist. We have seen too many financial crises in these last years of the century, crises that have come at unacceptable costs to the people in the countries affected by them. Those catastrophes add urgency to the challenge of promoting safety and stability.

There will no doubt be a full and vigorous debate on the best way to realize the opportunities of a world of free-flowing capital -- and manage the risks. I don't aspire to any kind of conclusive synthesis today. But let me offer five observations for your consideration.

1. Vulnerability to Crises Begins at Home

If we are to piece together the lessons of the recent crises and devise an effective approach to these issues it will be important to start from the right place. Some conjure a specter haunting the

RR-2286

world's governments: the global capital markets whose advances they cannot resist, whose sudden rejections they cannot survive. The facts of the most recent financial crises tell a different story.

The truth is that the crises that have occurred have disproportionately involved the judgments of countries' own citizens. Careful studies by the G-10 and the IMF of the crises in the European exchange rate mechanism and the Mexican peso crisis were able to attribute only a small fraction of the capital flows involved to speculative trades by foreigners. This research was given added support by Jeff Frankel and Sergio Schmuckler's observation that the Mexican Bolsa, dominated by Mexican residents' transactions, responded much more quickly to the crisis than foreign investor-dominated closed-end mutual funds. I understand that these studies have been echoed in the very recent IMF study into the behavior of hedge funds in Asia.

Where foreign capital has been involved it has most often been foreign capital that governments have sought actively to attract:

- we saw this in Mexico, with the increasing resort to issuing dollar-denominated *Tesobonos* to put off adjustment day at home;
- we saw it in Thailand, in the tax breaks on off-shore foreign borrowing and other domestic incentives for Thai banks to take on unsustainable amounts of foreign debt;
- we saw it in Korea, where discriminatory controls kept long-term capital out, and ushered short-term capital in.

Before we come to the issue of placing controls on foreign borrowing, we should be considering the strong macroeconomic fundamentals that are critical to sustaining the confidence of a countries' own citizens -- and the kind of domestic safeguards needed to avoid dangerous practices associated with reckless pursuit of low cost capital. A better place to begin in drawing lessons from these events is that it is a bad idea for governments to reach excessively for capital, particularly if a disproportionate amount of that capital is denominated in foreign currency and is short-term and high yielding.

2. Successful Liberalization Depends on Sound Domestic Practices

The case for capital account liberalization is a case for capital seeking the highest productivity investments. We have seen in recent months in Asia -- as at many points in the past in other countries -- the danger of opening up the capital account when incentives are distorted and domestic regulation and supervision is inadequate. Inflows in search of fairly valued economic opportunities is one thing. Inflows in search of government guarantees or undertaken in the belief that they are immune from the standard risks are quite another.

The right response to these experiences is much less to slow the pace of capital account liberalization than to accelerate the pace of creating an environment in which capital will flow to its highest return use. And one of the best ways to accelerate the process of developing such a system it to open up to foreign financial service providers, and all the competition, capital and expertise which they bring with them. The recently concluded global financial services agreement demonstrates that countries recognize these beneficial effects of external liberalization.

Mexico took the second route in 1995 -- and has since reaped the benefits in rapid growth and a strengthened domestic financial system. It is striking that the countries that are currently faring best in Asia are those that have responded in the same way. Both the Korean and the Thai reform programs include sweeping liberalization of the domestic economy in addition to radical financial sector reform -- and both look to foreign competition and participation as a way of supporting those efforts. By contrast, some of the countries in the region that continue to look vulnerable are those that have seemed unwilling or unable to tackle domestic distortions -- and, indeed, have looked increasingly to the quick fix of capital controls instead.

The critical point is that when a country takes the more basic precautions that should be part of any liberalization process -- when a country has the proper supervisory and regulatory practices in place -- these have enormous potential to control the more risky forms of borrowing. Countries need to adapt and develop standards and rules to ensure safety and sound practice within a more liberalized system. Matched books, for example, is all very well: it means little if companies are taking on foreign currency debt service commitments on the basis of domestic assets that will not generate the ability to repay.

Effective prudential banking standards are especially vital. The Basle Committee has recently developed core principles for effective banking supervision that can serve as a blueprint for steps to improve supervision at the national level IOSCO is working on a similar project. But the major responsibility lies with national governments Of particular importance is ensuring that investment decisions and capital flows are not distorted by explicit or implicit government guarantees

In short, governments can respond to the invention of jet airplane by lengthening the runway or by banning jet landings It is obvious which is better

3. The IMF Has A Critical Role in Promoting Open and Stable Financial Systems

In Mexico, in Asia, and throughout the world the IMF has become increasingly involved in helping countries realize the opportunities of global capital markets -- and manage the risks. That involvement has been de facto We need to make it de jure That is why we have supported speedy codification of its role in this area through the Amendment of the Fund's Articles of Agreement to include capital account liberalization

This is not about bureaucratic tidiness It is about ensuring that the IMF is in a position to respond to the challenges raised by the crises of recent years -- by working with countries to ensure that countries open their capital accounts in a way that best protects them, and the international financial system as a whole, from financial crises and the contagion which such crises can cause.

Each country must choose the approach that is right for them. Amending the Articles is entirely consistent with this. Under the proposed approach, countries will accept the obligation to liberalize the capital account fully, but what that means precisely will be up to them to decide in cooperation with the IMF. Until they are ready, they could avail themselves of transitional arrangements as approved by the Fund. They would simply have to commit not to backtrack without IMF approval.

I am open-minded about the appropriate phasing of liberalization. But it is worthwhile noting some of the potential drawbacks of capital controls:

- they can, in the wrong hands, be a way to avoid necessary policy adjustments, and thus a sure-fire route to prolonging and exacerbating the costs of those adjustments;

- they can undermine the goal of domestic liberalization by introducing new economic distortions and creating scope for official rent-seeking and corruption.

Even those countries most associated with "successful" use of short-term controls recognize that the drawbacks mount over time and do not see the controls as a permanent feature of the landscape. Once again, the end objective must be to reform those aspects of the domestic environment which leave scope for dangerous imbalances to develop in the first place.

I worry that ingenious arguments for speed bumps or other forms of capital controls are a little like the arguments developed over the past two centuries for the scientific tariff. They are logically correct. They relate to circumstances that are empirically relevant. But they are almost certainly invoked more frequently on behalf of the wrong policies than the right ones. In a different context the question has been asked whether, if it was discovered that ten percent of alcoholics could drink again without ill effects, it would be a service or a disservice to publicize this discovery.

It has been for too long that IMF could have stood for "it's mostly fiscal." In today's world, the preoccupation needs to be much more with helping countries grapple with the challenge of building a sound domestic financial system that can handle international capital

4. The Global Financial System Will Only Succeed if it is Safe for Failure

The challenge of building a safe and efficient global financial system starts with the efforts of domestic authorities. It surely does not end there. We all need to look at the international financial system and do what we can to change it so we don't have crises like this every three years. There will never be enough money in the world to respond in any kind of official lender of last resort function to all the crises that potentially can come in developing countries and industrial countries as global capital flows increase. That cannot be the way forward.

I think some of the elements of a better solution are clear

Greater transparency

If one were writing a history of the American capital market I would suggest to you that the single most important innovation shaping that capital market was the idea of generally accepted accounting principles. We need that internationally. It is a minor, but not insignificant, triumph of the IMF that in Korea somebody who teaches a night school class in accounting told me that he normally has 22 students in his winter term and this year he has 385. We need that at the corporate level. We need that at the national level. And we need that transparency to apply to central banks. In particular, we must recognize that it means nothing for a central bank to report its reserves if it does not report the encumbrances on those reserves.

Strengthening domestic financial systems

In keeping with my earlier comments, we need to focus our attention on strengthening financial systems, both globally and at the level of individual countries. That means improved prudential standards and the promotion of effective financial infrastructure. But the ingredients of sound banking systems go well beyond a list of internationally recognized standards -- it means cultivating a credit culture, sound supervision, limits on the quality of assets at a banks' disposal, and effective controls on self-dealing.

Creditor responsibility

We need to have an architecture in place, so that policy makers do not confront the choice between uncontrolled chaos and confusion and large bail outs which is too often the choice they confront today. That has got a microeconomic dimension and a macroeconomic dimension. Countries need bankruptcy laws. And they need effective judicial institutions to enforce them. That is part of being part of a global capital market We also need procedures for dealing with situations where countries get themselves into very profound financial difficulties at the sovereign level.

We need systems that are consistent with legal procedures around the world. We need systems that can handle failure because until the system is safe for failure, we will not be able to count on success We consider the American financial system to be strong, not because all of its institutions succeed, but in large part, at least, because the failure of one does not jeopardize the whole. We need to build more systems like that For world capital markets to function properly, investors must make investments based on the fundamentals of national economies, and *not* the likelihood of international rescues The enormously difficult analytical challenge -- for the IMF, for all of us -- is to find a way to build such a system safely, and without undermining the stability we are aiming to promote.

5. The Interests of Capital Are not the Only Interests That Count

One theme of my remarks today has been the need for governments and the international community collectively to consider the system as a whole in responding to the challenges of a global financial market. That means working to strengthen domestic and international financial systems. And it means working to develop effective safeguards against crises and effective mechanism for dealing with crises when they take place. But what it cannot mean -- what it must not mean, is focusing solely on the concerns of capital: be it domestic or international.

A focus on stabilizing capital flows is a means to a more ultimate objective. It is not an end in itself. In working to promote free flows of capital we must not neglect the broader risks they pose to the people this new global economy is meant to serve -- and the environment in which those people live. As capital becomes so much more mobile than labor there are legitimate concerns that companies will exploit that greater mobility by playing off competing jurisdictions against one an other. The fear is that we will find ourselves in a race to the bottom -- a bottom in which governments cannot promote fair taxes, uphold fair labor standards or protect the environment.

That is not the world we want to build. And it is not the world we are building. That is why we are working with other countries to promote global cooperation against corporate and legal tax havens. That is why we are working actively in the OECD on the issue of tax competition. It is why we have worked, within the IMF and the other IFIs to ensure that the concerns of labor and the environment get a fair hearing in devising reform programs and sustainable development strategies. And it is why fair labor and environmental standards have played a core role in our bilateral and multilateral trade liberalization initiatives.

None of these questions has easy answers. But we neglect them at our peril. These past years we have been laying the first foundations of a truly global economy. Trade, investment, capital, information and know-how are flowing more freely than ever before to the places where they can be most effective in creating wealth. But events in Asia are a further reminder that the tide of global integration brings serious challenges in its wake. The potential is breathtaking. It will require a new network of policies and institutional arrangements to ensure that this potential is realized. And it will, most definitely, depend on an effective IMF. Thank you.

-30-

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
Text as Prepared for Delivery
March 10, 1998

Testimony of the Honorable John D. Hawke, Jr.
Under Secretary of the Treasury for Domestic Finance
On S. 1405
Financial Regulatory Relief and Economic Efficiency Act of 1997
Before the
Committee on Banking, Housing, and Urban Affairs
United States Senate
March 10, 1998

Mr. Chairman, Senator Sarbanes, Members of the Committee. Thank you for this opportunity to present the Administration's views on S. 1405, the Financial Regulatory Relief and Economic Efficiency Act of 1997.

Mr. Chairman, I would like to commend you, Senators Shelby and Mack, and the other Senators who introduced S. 1405. Your commitment to rationalizing the regulation of our nation's financial institutions is longstanding. In 1996, the Administration was pleased to support final passage of the Economic Growth and Regulatory Paperwork Reduction Act of 1996. That legislation demonstrated that Congress and the Administration, working together, could achieve meaningful reductions in the regulatory burden on depository institutions without sacrificing the safety and soundness of those institutions or important protections for our nation's consumers and communities. We welcome the opportunity to work with you on additional meaningful reforms.

The Administration is particularly pleased that S. 1405 does not propose to weaken the Community Reinvestment Act. Under CRA, insured depository institutions have become increasingly important sources of capital for the revitalization of our nation's low- and moderate-income neighborhoods, bringing billions of dollars in investments to local economies. As the Committee knows, all the banking agencies have made a determined effort to rework their CRA rules to emphasize performance over paperwork.

RR-2287

In 1996, the Administration urged Congress to allow time for these changes to take effect, and the results have validated Congress's decision to do so. As one ABA official has put it, the new CRA regulations "reduced record keeping, exams went quicker, and banks now know what is required of them." CRA is working.

I should note that the Administration has taken additional steps to reduce regulatory burden. Examples include directing each agency to undertake a line-by-line review of its regulations to streamline procedures, eliminate redundant requirements, and write rules in plain English. In addition, the Administration encouraged the OCC and OTS to streamline their examination process for smaller, well-capitalized, well-managed institutions.

I am attaching to my testimony a section-by-section analysis of the bill setting forth our understanding of each provision and the Administration's position on it. Rather than repeat that discussion in my testimony, I will highlight some areas we believe to be of particular comfort or concern.

A. Removal of Interest Rate Restrictions

Section 102 of the bill would authorize banks and thrifts to offer NOW accounts for businesses and repeal existing prohibitions on their paying interest on demand deposits. Section 102 would thereby eliminate a needless government control on the price banks pay for funding, consistent with earlier elimination of Regulation Q ceilings on rates paid on deposit accounts. The result should be more efficient resource allocation. Moreover, small businesses, including minority-owned businesses, stand to benefit significantly from increasing the rate they earn on deposits from zero to a market rate. Larger firms are better able to earn interest through corporate sweep accounts or price concessions on other bank products in order to offset the below-market rate earned on deposits. The Administration therefore supports permitting depository institutions to pay interest on demand deposits with an appropriate transition period to allow banks to adjust their funding sources to reflect the new market rate.

Section 101 would permit the Federal Reserve to pay interest on reserves that banks are required to hold at the Fed. The Fed would pay a rate or rates not to exceed "the general level of short-term interest rates," thereby eliminating a cost to banks that is not imposed on their non-bank competitors. Banks can reduce this cost, but only if they expend resources to avoid it through sweep accounts and other machinations. In addition, the Federal Reserve believes that the payment of interest on reserves should help to reduce the volatility of the federal funds rate and resulting inefficiencies in short-term credit markets, thereby making monetary policy easier to implement through open market operations.

However, the effect of section 101 is to shift significant revenues from the taxpayers to the banking industry. Given the many high priority claims we and the Congress have on scarce budget resources, and the current high level of earnings in the banking industry, we do not believe that there is sufficient reason to make this change at this time.

B. Reform for Savings Associations

S. 1405 contains several helpful reforms for savings associations. Section 104 would repeal a requirement that the Office of Thrift Supervision (OTS) require 30 days notice of any dividend paid by a savings association that is a subsidiary of a savings and loan holding company. No similar statutory notice requirement applies to savings associations owned by individuals or bank holding companies, though OTS has imposed a notice requirement under other authority. The OTS now would like to waive the notice requirement for adequately capitalized, highly-rated savings associations, regardless of their ownership structure, and section 104 would allow it to do so.

We support this step but note that although section 104 repeals the notice requirement for savings associations, it leaves in place a dividend approval requirement for national banks.

In addition, section 106 would permit the OTS to approve *interstate* acquisitions of savings associations by savings and loan holding companies on the same basis as *intrastate* acquisitions. As a result, savings and loan holding companies would not have to comply with certain state laws, such as age and concentration requirements. We support this provision but note that it would continue a disparity in the treatment of interstate acquisitions between bank holding companies acquiring banks and savings and loan holding companies acquiring thrifts.

C. Elimination of Unnecessary Bureaucracy

Section 306 would eliminate the Thrift Depositor Protection Oversight Board and direct the Secretary of the Treasury to assume the Board's remaining responsibilities -- overseeing the Resolution Funding Corporation for the next 30 years, and serving as a nonvoting member of the Affordable Housing Advisory Board until the Advisory Board terminates in October 1998. The Department of the Treasury proposed this change last year.

Terminating the Oversight Board would eliminate the costs associated with preparing mandated agency filings -- such as Privacy Act reports and Federal Managers Financial Integrity Act reports -- over the remaining 33 years of the Board's life. Similar legislation passed both the House and Senate last year and is now awaiting conference on a provision unrelated to elimination of the Board.

D. Federal Home Loan Banks

We have fundamental concerns about the provisions in S.1405 that affect the Federal Home Loan Bank System. Our concerns are two-fold. First, we believe that there must be comprehensive reform of the Federal Home Loan Bank System, and that piecemeal amendments make such reform more difficult both conceptually and politically. Second, we believe that some of the FHLB amendments in S. 1405 would be poor public policy in any context.

The Federal Home Loan Bank System's role in financial markets has changed significantly in recent years. The development of the secondary mortgage market and the authorization of adjustable-rate mortgages have eroded the System's original public purpose. The System's balance sheet, however, has been growing rapidly. At the end of 1997, the System had nearly $360 billion in assets, but only $200 billion of those assets were advances. About $150 billion of the System's assets were investment securities unrelated to the System's mission -- a sort of money market fund for the benefit of System members managed by the System and funded with debt securities subsidized by taxpayers.

In the early 1990s, the Federal Home Loan Banks pointed to the combination of diminished demand for member advances and the fixed $300 million a year REFCorp obligation as a justification for building large investment portfolios. Since that time, there has been a steady increase in the demand for member advances, but the Federal Home Loan Banks have increased rather than decreased their investment portfolios. While the higher dividend rates that result from the investment portfolios may help retain members in the System, these investments do not contribute to the Federal Home Loan Banks' public purpose and are unnecessary to fund a REFCorp obligation that is small in comparison to the overall size of the System. Thus, any meaningful Federal Home Loan Bank legislation must include eliminating investments that do not directly serve the mission or safety and soundness of the system, better ensuring that advances to members are used to further their intended purpose; rationalizing the rules for FHLB membership; and reforming the capital structure of the Banks.

The FHLB provisions of S. 1405 do not serve these goals. For example, section 118 provides the Federal Home Loan Banks exemptions or special treatment with regard to Federal Reserve daylight overdraft regulations. Exemptions from daylight overdraft regulations could give the Federal Home Loan Banks a price advantage with regard to intra-day credit. Such advantage would serve no public purpose, could add risk to the payments system, and would create an unfair advantage for FHLBanks over both depository institutions and other GSEs.

Some of the FHLB provisions in section 119 that devolve decision making from the Finance Board to the Federal Home Loan Banks, such as eliminating Finance Board approval for Federal Home Loan Bank directors' salaries and Federal Home Loan Bank dividends, may be appropriate. However, it is inappropriate to give the FHLBanks greater autonomy absent other changes that would make the system both sounder and more accountable.

E. Consumer Protection Issues

In the Economic Growth and Regulatory Paperwork Reduction Act of 1996, Congress made some progress in the consumer protection area. Reform of the Truth in Lending Act and the Real Estate Settlement Procedures Act (RESPA) required the elimination of duplicative and needlessly burdensome requirements in the home mortgage lending process. These improvements will serve the interests of both consumers and the industry by reducing information overload and the costs of loan originations.

S. 1405, however, proposes several reforms that we believe would tilt the balance against consumers. We have serious concerns about the following provisions that would weaken important consumer protections.

Section 206 would permit a settlement service provider to pay an "affinity group" for a written or oral endorsement in an advertisement or mailing if the service provider clearly disclosed the payment in its first written communication to the consumer.

We have concerns that, under the existing statutory regime, such changes could spawn sham affinity groups seeking to avoid RESPA's anti-kickback provisions. It would be difficult to distinguish between bona fide and sham affinity groups. Moreover, the Committee has requested recommendations on fundamental statutory reform to RESPA and TILA. Any affinity group exemption proposal should be considered in that context.

Section 402 would amend TILA by (1) eliminating the repayment period and number of installments as terms that trigger disclosure requirements (regarding the down payment, terms of repayment, and APR) in closed-end credit advertisements; (2) eliminating disclosure of the highest possible APR in advertisements for open-end, variable-rate, home-secured credit; and (3) providing that instead of including current disclosure requirements, credit advertisements on radio or television in those media could state basic rate information, give a toll free number, and state that further information is available upon request.

We have concerns about section 402. We believe that consumers receive valuable information through advertising disclosures, and that this change would curtail that information. We understand that a nearly 40-organization Mortgage Reform Task Force, formed as a result of Section 2101 of the Economic Growth and Regulatory Paperwork Reduction Act of 1996, is looking into this issue as well as the issues raised in Section 206. We believe the agencies and this working group should be allowed to finish their assignment before legislative language is enacted.

Section 204 would repeal a statute that prohibits banks from "tying" -- that is, requiring a customer to purchase one product in order to receive another or to receive a better price on another. In order to avoid disrupting traditional banking relationships, the anti-tying statute already allows banks to tie traditional bank products -- allowing depositors to receive preferential rates on loans, for example. The statute also authorizes the Federal Reserve to grant further exceptions by regulation or case-by-case. We oppose repealing this prohibition. We are aware of no evidence that it has imposed unreasonable burdens that the Federal Reserve has been unable to address through its exemptive authority.

F. Reform for National Banks

S. 1405 contains several burden-reducing provisions for banks. For example, section 110 expedites the procedure by which a national bank may reorganize to become a subsidiary of a holding company, section 111 provides national banks with the flexibility to stagger the election process of members of their boards of directors, and section 112 provides procedures by which a national bank could merge with nonbank subsidiaries or affiliates.

The Administration also supports section 113 which clarifies that banks can purchase their own stock. Current law prohibits a national bank from owning or holding its own stock except to prevent a loss on a debt previously contracted and sold or disposed of within six months. The OCC has interpreted this language to permit national banks to acquire their own stock for certain legitimate corporate purposes. Legitimate purposes include reducing capital when consistent with safety and soundness and called for by either market conditions or internal operations, or holding stock in order to offer it to employees as part of a stock sharing plan.

Clarifying that banks can purchase their own stock is especially important now, when banks find themselves flush with liquidity. In such circumstances, banks are more likely to make marginal loans. Section 113 would make it easier for banks to choose the alternative of buying back their own stock. Indeed, we further recommend that Congress consider repealing the current restriction altogether.

G. Relief for the Regulators

Two sections of S. 1405 are intended to relieve burdens not on the financial services industry but rather on its regulators. We believe that each provision should be eliminated or modified. The first, section 304, would repeal the requirement that each federal banking regulator submit an annual report to Congress concerning the differences among the regulators' capital and accounting standards. We believe that this reporting requirement is an important means for the regulators to identify and harmonize any differences that develop in their capital rules. We believe that capital regulation is an area where consistency is important. As an alternative, we propose allowing the regulators the option of producing one joint report each year, rather than four separate reports. To the extent that the capital standards become and remain truly consistent, the report should be simple to prepare.

The other provision, section 302, would repeal the requirement that the federal banking regulators develop jointly a method for insured depository institutions to provide, to the extent feasible, supplemental disclosure of the estimated fair market value of assets and liabilities in any financial report. We have concerns about eliminating this requirement. Repeal could be read as a retreat from the current trend toward better disclosure.

CONCLUSION

We look forward to working with the Committee as this bill makes its way through the legislative process. Working together, we can eliminate regulatory burden while maintaining important and necessary public protections.

I would be glad to respond to any questions the Committee 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
Remarks as Prepared For Delivery
March 9, 1998

Contact: Beth Weaver
(202) 622-2960

STATEMENT OF UNDER SECRETARY RAYMOND W. KELLY

Good afternoon. Thank you, Ernie, for your kind introduction. I want to begin by acknowledging the tremendous support that Senators Gregg and Hollings have provided on the issues of child exploitation and especially, for their support of the National Center for Missing and Exploited Children.

Their leadership and initiative in establishing the Cyber Tipline is the reason we are all here today. This TipLine will give investigators additional tools to identify those responsible for using the Internet to prey on children. Treasury law enforcement stands ready to fully participate in this effort.

We, at the Treasury Department are proud of our relationship with the National Center for Missing and Exploited Children. Both the U.S. Customs Service and the U.S. Secret Service have worked in partnership with the Center to combat the scourge of child exploitation, both domestically and internationally.

Since 1987, Customs has investigated the leads provided by the Center on child pornography from the Center's Child Pornography Tip Line. And, in Fiscal Year 1997, Customs' enforcement against child pornography on the Internet resulted in 162 convictions and 167 seizures. Customs continues to make arrests each week.

Long before the Internet, Customs was making child pornography cases against importers who tried to smuggle the material into the U.S. The Internet is a faster, cheaper and safer way for child pornographers to move their products. As a result, child pornographers have found it to be a preferred medium for carrying out their illicit activities. That's why, Customs created the Cyber Smuggling Center to combat this phenomenon.

Over 60 percent of all child pornographic materials seen and seized by Customs are of international origin. Because of the international movement of pornographic materials, each of Customs 135 national and international offices has at least one investigator trained to identify and develop child pornography cases.
RR-2288

Customs has trained police officers, judges, border guards and prosecutors in child exploitation in several countries. This training has generated numerous electronic leads between U.S. Customs and its counterparts all over the world.

The Secret Service also lends its expertise to this fight. The Secret Service provides valuable forensic support to State and local law enforcement as well as the Center in the areas of age progression drawing, voice analysis, handwriting analysis, polygraph exams and chemical analysis of materials.

We at Treasury understand the profound importance of the Internet and have no interest in limiting its reach.

In order to strike a proper balance between access to the Internet for legitimate purposes, but prevention of exploitive activities, the continued partnership between the private sector and law enforcement is critical.

Thank you.

-30-

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
March 09, 1998

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Term:	91-Day Bill
Issue Date:	March 12, 1998
Maturity Date:	June 11, 1998
CUSIP Number:	912794658

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate 1/	Price
Low	4.965%	5.098%	98.745
High	4.975%	5.110%	98.742
Average	4.970%	5.102%	98.744

Tenders at the high discount rate were allotted 29%.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 33,808,442	$ 4,363,037
Noncompetitive	1,235,619	1,235,619
PUBLIC SUBTOTAL	35,044,061	5,598,656
Federal Reserve	3,716,780	3,716,780
Foreign Official Inst.		
Refunded Maturing	679,421	679,421
Additional Amounts	180,579	180,579
TOTAL	$ 39,620,841	$ 10,175,436

1/ Equivalent coupon-issue yield.

RR-2289

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
March 09, 1998

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Term:	182-Day Bill
Issue Date:	March 12, 1998
Maturity Date:	September 10, 1998
CUSIP Number:	912795AJ0

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate 1/	Price
Low	5.000%	5.201%	97.472
High	5.010%	5.212%	97.467
Average	5.010%	5.212%	97.467

Tenders at the high discount rate were allotted 87%.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 31,841,625	$ 4,552,517
Noncompetitive	1,109,857	1,109,857
PUBLIC SUBTOTAL	32,951,482	5,662,374
Federal Reserve	3,655,000	3,655,000
Foreign Official Inst.		
Refunded Maturing	1,603,579	1,603,579
Additional Amounts	426,421	426,421
TOTAL	$ 38,636,482	$ 11,347,374

1/ Equivalent coupon-issue yield.

RR-2290

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

EMBARGOED UNTIL 10 A.M. EST
Text as Prepared for Delivery
March 11, 1998

CREDIT UNIONS

Testimony of the Honorable Richard S. Carnell
Assistant Secretary of the Treasury
for Financial Institutions

Before the Committee on Banking and Financial Services
U.S. House of Representatives

March 11, 1998

RR-2291

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

TABLE OF CONTENTS

SUMMARY

The Treasury's testimony deals with two main topics: (1) the safety and soundness reforms recommended in our recent Congressionally mandated report on credit unions; and (2) the common bond of credit union membership.

THE TREASURY'S RECOMMENDED SAFETY AND SOUNDNESS REFORMS

Our report recommended that Congress take several steps to make federally insured credit unions and the National Credit Union Share Insurance Fund even safer, sounder, and more resilient.

Capital Requirements and Prompt Corrective Action

Credit unions hold over $300 billion in federally insured deposits. But unlike all other federally insured depository institutions, they are not currently subject to capital requirements or to a system of prompt corrective action.

We recommend that Congress require federally insured credit unions to have 6 percent net worth to total assets in order to be in good standing. We also recommend requiring credit unions to set aside, as retained earnings, a small percentage of their gross income if they have less than 7 percent net worth. Credit unions' balance sheets indicate that credit unions themselves recognize the wisdom of maintaining such capital levels. Of the federally insured credit unions operating at the end of 1996, 96 percent had more than 6 percent net worth, and those credit unions held 98 percent of total credit union assets.

We further recommend that Congress establish a system of prompt corrective action for credit unions. This system would be a streamlined version of that currently applicable to all FDIC-insured institutions, and would be specifically tailored to credit unions as not-for-profit, member-owned cooperatives.

Other Capital-Related Reforms

We recommend that Congress direct the NCUA to develop an appropriate risk-based capital requirement for complex credit unions. This risk-based requirement would take account of risks that the simple 6 percent net worth requirement does not adequately cover -- risks that may be appreciable only at a small subset of credit unions.

We also recommend that Congress direct the NCUA to require federally insured credit unions to deduct from their net worth for purposes of regulatory capital requirements and prompt corrective action, certain investments in equity securities issued by corporate credit unions. The goal is for each level of the credit union system to have sufficient capital for the risks undertaken at that level and, more specifically, to help ensure that a corporate credit union's losses do not cascade to its member credit unions.

Reforms Involving the National Credit Union Share Insurance Fund

We propose the following reforms relating to the Share Insurance Fund:

- Requiring more timely and accurate calculation of the Fund's equity ratio -- i.e., the ratio of the Fund's reserves to the total amount of the deposits that the Fund insures -- the standard measure of the Fund's health. The NCUA's method of measuring the equity ratio generally overstates the reserves actually available.
- Not permitting distributions to dissipate the Fund's reserves when the Fund's ratio of high-quality, liquid net reserves to the total deposits that the Fund insures (the available-assets ratio) falls below 1 percent.
- Requiring federally insured credit unions with more than $50 million in total assets to adjust their 1 percent deposit in the Fund semi-annually (instead of just annually).
- Giving the NCUA some discretion to adjust the premium rate according to the Fund's financial needs.
- Imposing a premium if the Fund's equity ratio falls below 1.2 percent, in keeping with the NCUA's longstanding practice.
- Giving the NCUA discretion to let interest on the Fund's reserves increase the Fund's equity ratio to 1.5 percent from the current ceiling of 1.3 percent. This change would permit the Fund to accumulate additional investment earnings in good times that would increase its resiliency during economic downturns. The NCUA would remain free to distribute as dividends any reserves above 1.3 percent, or to use part of the Fund's earnings to increase the reserve ratio and distribute the rest as a dividend on credit unions' 1 percent deposit.

Credit Unions' Access to Emergency Liquidity

Congress created the Central Liquidity Facility (CLF) in 1978 to serve as a governmental lender of last resort for credit unions. We are concerned that the CLF could not handle the very sort of systemic crisis for which it was designed. The CLF has little capital of its own, and appropriations Acts have allowed it to lend credit unions no more than $600 million. Considering that credit unions hold over $300 billion in deposits, the CLF would need billions upon billions of dollars in lending authority to be assured of having the resources to carry out its original purpose. Even as the CLF faces these constraints, credit unions have access to a governmental lender of last resort with unlimited borrowing authority: the Federal Reserve System.

Accordingly, we recommend: that Congress discontinue the CLF; that larger credit unions take the modest steps needed to line up access to emergency liquidity through the discount window; and that Congress direct the NCUA to periodically assess federally insured credit unions' potential needs for liquidity and their options for obtaining it.

The Importance of Enacting These Safety and Soundness Reforms Now

Now is an excellent time to enact these safety and soundness safeguards -- with the economy strong and credit unions flourishing. Our proposed changes involve little cost or burden to credit unions today, yet they could pay enormous dividends in more difficult times.

Moreover, as credit unions increase in size and complexity and compete directly with banks and thrifts, Congress needs to ensure that comparable safeguards apply to credit unions' risk-taking. The safeguards applicable today fall short of being comparable. And if the ultimate outcome of the current debate over the common bond is to provide greater flexibility, allowing the continued emergence of larger, less closely knit credit unions, it will be all the more important to have adequate safeguards in place.

THE COMMON BOND OF CREDIT UNION MEMBERSHIP

General Principles

Between the polar-opposite outcomes of having no common bond requirement and requiring all members of a credit union to share a single, tightly defined common bond, are an array of possible policies. We suggest that Congress consider possible policies in light of the following principles:

1. Reaffirm Credit Unions' Role in Serving People of Modest Means

Credit unions have historically had a special role in serving people of modest means. The Federal Credit Union Act reflects this public purpose: it is an "Act . . . to make more available to people of small means credit for provident purposes." We believe that federal policy towards credit unions should continue to promote this objective.

2. Correct Perverse Incentives to Abandon Occupation- and Association-Based Federal Credit Union Charters

A stringent federal common bond requirement serves no public purpose if it merely prompts credit unions to switch to state charters with a looser common bond requirement (or none at all). Similarly, a stringent occupational or associational common bond requirement serves no public purpose if it simply prompts credit unions to switch to broad, geographically based charters. We believe that public policy should avoid creating perverse incentives to seek one type of credit union charter over another, particularly if the upshot is to encourage credit unions to select charters that weaken the affinity among their members.

3. Preserve a Meaningful Common Bond as a Characteristic of Credit Unions

We see the common bond requirement as a distinguishing characteristic of credit unions -- one that helps set them apart from banks and thrifts, and that reinforces their other defining characteristics: their cooperative structure, democratic governance, not-for-profit orientation, and public purpose of serving people of modest means. Weakening the common bond might well put strain on credit unions' cooperative, not-for-profit orientation, including their willingness to pay special attention to members of lesser means.

4. Assure Safety and Soundness

With the rise of larger, more impersonal credit unions, formal safeguards and effective supervision become all the more important.

5. Take Account of Market Dynamics

Economies of scale in providing technology-based services, downsizing, the large number of workers at firms too small to support their own credit union, and the safety and soundness benefits of diversification lend weight to permitting credit unions to expand beyond a single membership group. Yet other market factors -- such as the credit risk-reducing influence of a sense of affinity, and the dubious incentives credit union managers may have to increase the size of their credit unions -- suggest limits on the economic case for attenuating the common bond requirement. Flexibility on the common bond requirement should be tempered by the other principles outlined here.

6. Protect Existing Credit Union Members and Membership Groups

In adding new membership groups pursuant to NCUA policy, credit unions acted in good faith. Disenfranchising existing credit union members or membership groups would not serve the public interest.

Next Steps

We look forward to working with the Committee to develop legislation dealing with the common bond requirement. We suggest that such legislation should: grandfather all existing credit union members and membership groups added before the Supreme Court ruling, and permit such membership groups to add new members; include the safety and soundness reforms outlined in the Treasury report; and preserve a meaningful common bond requirement while providing reasonable flexibility for credit unions to include additional groups within their membership.

CREDIT UNIONS

Testimony of Richard S. Carnell
Assistant Secretary of the Treasury
Before the Committee on Banking and Financial Services
United States House of Representatives

Mr. Chairman, Congressman LaFalce, Members of the Committee. I appreciate this opportunity to present the Treasury's views on two topics involving credit unions. First, the safety and soundness reforms recommended in the Treasury's recent Congressionally mandated report on credit unions. Second, the common bond of credit union membership, including the implications of the decision rendered by the Supreme Court two weeks ago.

As not-for-profit depository institutions, credit unions add something special to our financial system. They give their members an alternative, cooperative structure for depositing savings and obtaining credit and other financial services. The credit union ideal is one of mutual self-help.

I. THE TREASURY'S STUDY OF CREDIT UNIONS

By a statute enacted in September 1996, Congress required the Treasury to study and report on a series of issues involving credit unions (a list that did not, incidentally, include the common bond requirement). In preparing our report, we consulted widely with the National Credit Union Administration (NCUA), the four federal banking agencies, the major credit union, bank, and thrift trade associations, consumer groups, and credit union officials. We made on-site visits, and we sought and received public comments. As specifically required by Congress, we assembled an interagency team of experienced federal bank and thrift examiners to assist us in our evaluation of the ten largest corporate credit unions. We published our report last December.

A. THE TREASURY'S LEGISLATIVE RECOMMENDATIONS TO STRENGTHEN THE SAFETY AND SOUNDNESS OF THE CREDIT UNION SYSTEM

Our report found that credit unions and their deposit insurance fund appear to be in strong financial condition. We did make several recommendations for Congressional action to strengthen the long-term safety and soundness of the credit union system.

1. Capital Requirements and Prompt Corrective Action

Strong capital requirements and prompt corrective action are foundations of modern safety and soundness supervision of federally insured depository institutions. Capital requirements help ensure that such institutions have a sufficient buffer to absorb unforseen losses without in turn imposing losses on depositors or the deposit insurance fund.[1] Prompt corrective action is a capital-based approach to supervision aiming to resolve capital deficiencies before they grow into large problems. As a federally insured depository institution's capital declines below required levels, an increasingly more stringent set of safeguards applies. The goal is to minimize (and, if possible, avoid) losses to the deposit insurance fund. Prompt corrective action has applied to all FDIC-insured depository institutions since 1992, and the results have been good.

Although credit unions hold over $300 billion in federally insured deposits, they are not currently subject to capital requirements in the sense of needing to have a given ratio of capital to assets in order to be in good standing. Credit unions must set aside as regular reserves (a form of retained earnings) a small percentage of their gross income until their regular reserves reach a level approximating 4 percent of total assets. But this is not a capital requirement; credit unions need not reach or maintain that level. The rule in question is perhaps best described as an earnings-retention requirement.

Nor are credit unions subject to a system of prompt corrective action. The NCUA has informal policies analogous to some aspects of such a system, but has no regulations or even formal guidelines for taking corrective action regarding a troubled credit union.

We recommend that Congress require federally insured credit unions to have 6 percent net worth to total assets in order to be in good standing.[2] We also recommend that credit unions set aside, as retained earnings, a small percentage of their gross income if they have less than 7 percent net worth.

Credit unions' balance sheets indicate that credit unions themselves recognize the wisdom of maintaining such capital levels. Of the federally insured credit unions operating at the end of 1996, 96 percent had more than 6 percent net worth, and those credit unions held 98 percent of total credit union assets. Moreover, 93 percent of credit unions had more than 7 percent net worth, and those credit unions held 93 percent of total credit union assets.

We also recommend that Congress establish a system of prompt corrective action for credit unions. This system would be a streamlined version of that currently applicable to all FDIC-insured institutions, and would be specifically tailored to credit unions as not-for-profit,

---

[1] Requiring depository institutions to have adequate capital also helps counteract the moral hazard of deposit insurance (i.e., the tendency of deposit insurance to permit or encourage insured depository institutions to take excessive risks -- risks that they would not take in a free market). Capital is like the deductible on an insurance policy: the higher the deductible, the greater the incentive to avoid loss. Adequate capital gives a depository institution's owners incentives compatible with the interests of the insurance fund because the fund absorbs losses only after the institution has exhausted its capital and thus eliminated the economic value of the owners' investment.

[2] This statutory requirement would not apply to new credit unions that had not existed for a given number of years or reached a specified asset size.

member-owned cooperatives. It would thus, for example, not include provisions keyed to the existence of capital stock, since credit unions have no capital stock.

Such a system of prompt corrective action would protect the National Credit Union Share Insurance Fund and the taxpayers who stand behind it; it would also benefit credit unions and the credit union system. It would reinforce the commitment of credit unions and the NCUA to resolve net worth deficiencies promptly, before they become more serious. It would promote fair, consistent treatment of similarly situated credit unions. It should reduce the number and cost of future credit union failures. In so doing, it should conserve the resources of the Share Insurance Fund, make the Fund even more resilient, and make more money available for lending to credit union members. And it would respect and complement the cooperative character of credit unions.

2. Other Capital-Related Reforms

a. Risk-Based Capital Requirement for Complex Credit Unions

We recommend that Congress direct the NCUA to develop an appropriate risk-based capital requirement for complex credit unions. This risk-based requirement would supplement the simple 6 percent net worth requirement and could take account of risks -- such as interest-rate risk or contingent liabilities -- that may be appreciable only at a small subset of credit unions.

b. Treatment of Certain Equity Investments in Corporate Credit Unions

Corporate credit unions are specialized financial institutions that provide services to, and are cooperatively owned by, their member credit unions. They serve their members primarily by lending or otherwise investing their member credit unions' excess funds. They also provide services comparable to those offered by bankers' banks or to the correspondent services that large commercial banks traditionally provided to smaller banks. U.S. Central Credit Union is a corporate credit union serving 38 of the 40 other corporate credit unions.

The three-tier cooperative structure of the credit union system -- regular credit unions, corporate credit unions, and U.S. Central -- creates an interdependence risk among the various levels. Specifically, a credit union's deposits at its corporate credit union, and its equity investment in that institution, are assets on its books. At the same time, the credit union's corporate credit union carries these funds on its balance sheet as deposits (largely uninsured) and capital, respectively. If a corporate credit union were to fail, its member credit unions could face losses on their deposits or equity investments, which would reduce their own capital. This interdependence means that each level of the credit union system must have sufficient capital for the risks undertaken so as not to pose a risk of losses cascading to the level below it.

Accordingly, we recommend that federally insured credit unions deduct from their net worth (for purposes of regulatory capital requirements and prompt corrective action) paid-in capital issued by a corporate credit union and some portion of member capital accounts at a corporate credit union. Paid-in capital is the lowest priority instrument issued by a corporate credit union. If the corporate credit union were to fail, holders of paid-in capital would have to stand in line behind all creditors, all depositors, and all other equity holders; they would receive nothing unless all these other claimants received payment in full. Membership capital is the second lowest priority instrument issued by a corporate credit union. Holders would stand in line behind all creditors, all depositors, and all equity holders other than holders of paid-in capital.

3. Reforms Related to the National Credit Union Share Insurance Fund

We propose a series of reforms relating to the National Credit Union Share Insurance Fund.

First, we recommend requiring more timely and accurate calculation of the Fund's equity ratio -- i.e., the ratio of the Fund's reserves to the total amount of the deposits that the Fund insures -- the standard measure of the Fund's health. We are concerned that the NCUA's method of measuring the equity ratio generally overstates the reserves actually available. The NCUA calculates the equity ratio monthly by dividing the Fund's reserve balance for the month by the previous year-end total of insured deposits. Thus each year-end equity ratio is calculated using a denominator that may be up to 12 months old, which tends to inflate the ratio. For example, at year-end 1996, the Share Insurance Fund had $3.4 billion in reserves and insured $275.5 billion in deposits, which implied an equity ratio of 1.24 percent. However, the NCUA calculated the Fund's year-end 1996 equity ratio as 1.3 percent by dividing the year-end 1996 total Fund reserves by the year-end 1995 total insured deposits.

Because the NCUA must, under current law, distribute dividends to member credit unions whenever the Share Insurance Fund's equity ratio exceeds 1.3 percent, the NCUA's procedure has led it to pay dividends when the Fund's equity ratio, properly measured, was actually less than 1.3 percent. Paying dividends under such circumstances dissipates the Fund's reserves without good reason. We accordingly recommend that Congress require the NCUA to correct this non-contemporaneous measurement of the equity ratio.

Second, we recommend not permitting distributions to dissipate the Fund's reserves when the Fund's ratio of high-quality, liquid net reserves to the total deposits that the Fund insures (the available-assets ratio) falls below 1 percent. The equity ratio, unlike the available assets ratio, does not reflect the actual composition of the Share Insurance Fund's assets. When credit unions come under stress (e.g., during an economic recession), illiquid assets acquired from failed or troubled institutions will tend to increase at the expense of liquid assets -- leaving the Fund less able to provide cash assistance to other ailing credit unions. We recommend that Congress require the Share Insurance Fund to maintain an available assets ratio of 1.0 percent of insured deposits. Should the available assets ratio fall below this level, the NCUA would not be permitted to pay dividends even if the Fund's equity ratio were to exceed 1.3 percent.

Third, we recommend requiring federally insured credit unions with more than $50 million in total assets to adjust their 1 percent deposit in the Fund semi-annually (instead of just annually). Such institutions account for just 12 percent of all credit unions but hold 76 percent of total credit union deposits. Semi-annual adjustments by such credit unions will help ensure that the 1 percent deposit keeps pace with their deposit growth.

Fourth, in place of the current rule that fixes any insurance premium at 1/12 of 1 percent of insured shares, we recommend giving the NCUA some discretion to adjust the premium rate according to the Fund's financial needs.

Fifth, we recommend imposing a premium if the Fund's equity ratio falls below 1.2 percent, in keeping with the NCUA's longstanding practice.

Sixth, we recommend giving the NCUA discretion to let interest on the Fund's reserves increase the Fund's equity ratio to 1.5 percent. The Federal Credit Union Act currently imposes a rigid 1.3 percent ceiling on the Fund's reserve ratio. The change proposed here would permit the Fund to accumulate additional investment earnings in good times that would increase its resiliency during economic downturns. This flexibility would likewise better enable the NCUA to protect the Fund -- as well as protect credit unions' 1 percent deposit -- from possible future losses. The NCUA would, of course, remain free to distribute as dividends any reserves above 1.3 percent (and any interest earned on those reserves). It could also use part of the earnings to increase the reserve ratio and distribute the rest.

4. Credit Unions' Access to Emergency Liquidity

Our final major legislative proposal involves credit unions' access to emergency liquidity. During normal times, credit unions with excess cash deposit that cash at their corporate credit union, and credit unions that need additional cash borrow it from their corporate credit union. The corporate credit union system does a good job of reallocating excess liquidity among credit unions.

But we are concerned that during a financial crisis (whether in the financial system generally or in the credit union system specifically) the credit union system would have only limited access to outside liquidity. The sort of systemic demand for liquidity that we have in mind is an extraordinary event. Our financial system is healthy -- as healthy as it has been in years -- and even in the future such a crisis would be unlikely. But the potential for such an event is still sufficiently real that Congress, the Administration, and the NCUA have a responsibility for making sure that it could be handled if it did arise. Corporate credit unions are not set up to handle such a systemic crisis.[3]

---

[3] During such a crisis, liquidity would become scarce. Deposits at corporate credit unions would fall, as their member credit unions withdrew money to meet their own needs for cash -- thus reducing corporate credit unions' lending capacity even as demand for liquidity increased. Potential outside sources of liquidity, such as

Recognizing the potential vulnerability of the credit union system, Congress created the Central Liquidity Facility (CLF) in 1978 to serve as a governmental lender of last resort for credit unions.[4] But we are concerned that the CLF itself could not handle such a crisis.

First, the CLF has little capital of its own. The statute establishing the CLF contemplated that credit unions would invest directly in the CLF, but few credit unions actually joined. So during the 1980s, the CLF implemented the so-called redeposit program, which allows credit unions to join the CLF through their corporate credit unions without anyone putting up any cash. Through a complex series of accounting transactions involving corporate credit unions, U.S. Central, and the CLF (diagramed on page 121 of the Treasury report), entries are recorded to show stock purchases, although no funds actually change hands. These transactions artificially inflate the parties' balance sheets, without giving the CLF any real capital.

Second, Congressional appropriations Acts have allowed the CLF to lend no more than $600 million to credit unions. Considering that credit unions hold over $300 billion in deposits, the CLF would need billions upon billions of dollars in lending authority to be assured of having the resources to carry out its original purpose.

Even as the CLF faces these constraints, credit unions have access to a governmental lender of last resort with unlimited borrowing authority: the Federal Reserve System. In 1978, when Congress created the CLF, credit unions had no access to the Federal Reserve discount window. But now any credit union that offers checking (share draft) accounts is eligible to borrow at the discount window.

Against this background, our report recommends that Congress discontinue the CLF. We also recommend that credit unions, particularly larger credit unions, take the modest steps needed to line up discount window access. This simply involves filing some paperwork with the Federal Reserve bank; credit unions need not pre-pledge collateral. Our basic idea is that if a systemic crisis involving widespread demand for liquidity did arise, large credit unions could turn to the Fed, leaving corporate credit unions free to provide liquidity to small credit unions. It is just this type of emergency -- a systemic crisis involving widespread demand for liquidity -- that the CLF cannot handle.

We also recommend that Congress direct the NCUA to (1) periodically assess federally insured credit unions' potential needs for liquidity and their options for obtaining it, and (2) share

---

lines of credit at other financial institutions or access to the capital markets, would be of uncertain reliability during such a crisis. And most corporate credit unions are generally not eligible to borrow from the Federal Reserve discount window because they avail themselves of the bankers' bank exemption from reserve requirements.

[4] The CLF is a mixed-ownership government corporation within the NCUA. The CLF has authority to borrow over $17 billion, and the Justice Department's Office of Legal Counsel has stated that the full faith and credit of the United States backs such borrowing.

with the Federal Reserve banks information relevant to making discount-window advances to such credit unions.

B. OTHER PERTINENT RECOMMENDATIONS

1. Retaining the NCUA's Role in Administering the Share Insurance Fund

Congress required us to evaluate the potential costs and benefits of having some entity other than the NCUA administer the Share Insurance Fund. Some potential may exist for conflict between the NCUA's mission as a charterer or regulator of credit unions and the NCUA's responsibilities for the Share Insurance Fund. However, in our view, any such potential conflict is best handled by applying a system of prompt corrective action. Such a system would impose an important and highly constructive discipline on the NCUA's supervisory and insurance functions. This discipline should, to a significant degree, offset any potential for conflicts of mission. Accordingly, we recommend against moving the Share Insurance Fund out of the NCUA.

2. Continuing to Permit Credit Unions to Treat Their 1 Percent Deposit in the Share Insurance Fund as an Asset

Congress also required us to evaluate whether the 1 percent deposit that federally insured credit unions have made into the Share Insurance Fund should continue to be treated as an asset on credit unions' books or whether credit unions should, instead, expense that deposit. Let me first take a moment to explain how the 1 percent deposit works, and more generally, how the Share Insurance Fund is financed.

Under current law, each federally insured credit union must maintain on deposit in the Share Insurance Fund an amount equal to 1 percent of the credit union's insured deposits. Thus, for example, if the credit union has $50 million in insured deposits, it must keep $500,000 on deposit in the Fund. The credit union's deposit in the Fund counts as an asset on the credit union's books. It also counts as reserves of the Fund, and is available to protect depositors at failed credit unions. Because this accounting treatment involves some double-counting of the same money, some have called for credit unions to write off the 1 percent deposit, so that it would no longer count as an asset on their books.

We concluded that better ways of protecting the Fund are available. Three reforms that I outlined earlier are particularly relevant here: the 6 percent capital standard; the requirement that credit unions with less than 7 percent net worth set aside some of their income as retained earnings; and a system of prompt corrective action. We believe that these measures, coupled with existing safeguards, would fully offset any double counting and assure adequate protection of the Fund. By contrast, requiring a writeoff of the 1 percent deposit would not provide nearly as much protection. Accordingly, we recommend against requiring credit unions to write off their 1 percent deposit.

C. THE IMPORTANCE OF ENACTING THESE SAFETY AND SOUNDNESS REFORMS NOW

Over the past two decades, most key legislation regarding the safety and soundness of federally insured depository institutions has been enacted in time of crisis. The Depository Institution Deregulation and Monetary Control Act of 1980, the International Lending Supervision Act of 1983, the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, and the FDIC Improvement Act of 1991 all fit this pattern. Because Congress waited to act until it faced a crisis, the changes involved, although ultimately beneficial, increased the short-term stress on many depository institutions.

A better approach is to enact needed safety and soundness safeguards while times are good. Such safeguards will reduce the potential for a future crisis. And depository institutions can make any necessary adjustments from a position of strength, with appropriate transition periods.

Congress has such an opportunity to act now. Credit unions are flourishing. On average, their net worth exceeds 11 percent of total assets. And the Share Insurance Fund is fully capitalized. The changes we propose involve little cost or burden to credit unions today, yet they could pay enormous dividends in more difficult times.

Although most credit unions remain relatively small institutions with simple product offerings, a growing number are large and have extensive product offerings. These credit unions commonly compete head-on with other depository institutions. As credit unions increase in size and complexity -- competing directly with banks and thrifts and taking on similar financial risks -- policymakers need to ensure that comparable safeguards apply to credit unions' risk-taking. The safeguards applicable today fall short of being comparable. Moreover, if the ultimate outcome of the current debate over the common bond is to provide greater flexibility, allowing the continued emergence of larger, less closely knit credit unions, the safety and soundness enhancement traditionally provided by a tight common bond diminishes, and the incentives for growth and added risk-taking may increase.

We risk being unprepared for future problems if we do not act now to update applicable safety and soundness safeguards in light of a changing industry. It was just this lack of preparation that compounded taxpayer losses during the thrift crisis -- as the thrift industry changed, safeguards did not keep up with those changes.

II. THE COMMON BOND OF CREDIT UNION MEMBERSHIP

Let me now turn to the requirement that members of a credit union share a common bond.

In discussing this requirement, I will: describe what we at the Treasury believe to be the distinguishing characteristics of credit unions -- the features that set them apart from banks and thrifts; summarize the common bond requirement for federal credit unions; identify the key market dynamics that have prompted credit unions to pursue liberalization of the common bond requirement; set forth six principles that the Treasury believes should guide policy relating to the common bond requirement; and provide some general comments on what Congress may wish to consider in this area.

A. THE COMMON BOND REQUIREMENT AS A DISTINGUISHING CHARACTERISTIC OF CREDIT UNIONS

Credit unions have several characteristics that, taken together, distinguish them from banks and thrifts.

First, credit unions are member-owned cooperatives. They do not issue capital stock, and instead derive their capital from accumulated retained earnings.

Second, credit unions generally rely on unpaid, volunteer boards of directors elected by, and drawn from, each credit union's membership.

Third, credit unions do not operate for profit.

Fourth, credit unions have a public purpose. As declared in the Federal Credit Union Act, this purpose involves "mak[ing] more available to people of small means credit for provident purposes." Of course, other depository institutions also operate under statutes that delineate public purposes, so the distinction here involves the emphasis on providing services affordable to people of modest means.

Fifth, credit unions generally have limitations on their membership -- limitations based on some affinity among members. These limitations are known as the common bond requirement. Thus, unlike other depository institutions, a credit union generally cannot serve just anyone from the general public.

We see the common bond requirement as a distinguishing characteristic of credit unions -- one that helps set credit unions apart from other depository institutions. In our view, the common bond requirement is not merely a convenient organizing principle. The affinity among a credit unions' members, as reflected in a common bond, reinforces credit unions' other defining characteristics.

B. THE DIFFERENT TYPES OF COMMON BONDS

The Federal Credit Union Act of 1934 limits "federal credit union membership . . . to groups having a common bond of occupation or association, or to groups within a well-defined neighborhood, community, or rural district."

Thus, the Act recognizes three types of credit unions: those based on a common bond of occupation or association and those based on a well-defined geographic community. Most credit unions have traditionally had occupational or associational common bonds, although community credit unions have become more common in recent years.

In an occupational common bond, a credit union's members share a common employer. The NCUA has required that occupational fields of membership include a geographic definition.

In an associational common bond, a credit union's members come from some recognized association. The NCUA's policy is to charter associational credit unions at the lowest organizational level that is economically feasible. The policy permits a charter for a widely dispersed membership only where such a charter is clearly demonstrated to be in the best interests of the associations's members and credit unions.

The Federal Credit Union Act restricts a community credit union to "a well-defined neighborhood, community, or rural district." The NCUA has interpreted this to mean a single, geographically well-defined area where residents interact. Generally, the NCUA recognizes four types of affinity on which to base a community credit union: affinity based on living, worshiping, studying, or working in the community.

C. Market Dynamics

Let us briefly consider the market forces that encourage credit unions to expand beyond their original membership group. We have identified four types of forces. They involve technology, demographics, safety and soundness, and management.

1. Technological Factors

Many credit unions -- to meet customer demand and compete with other depository institutions -- now offer such technology-based services as ATMs and computer and telephone banking. The information and communications technology needed to provide such services involves substantial fixed costs. Adding more membership groups makes such investments more economical by allowing a credit union to spread these fixed costs over more members.

2. Demographic Factors

Demographic factors also contribute to credit unions' desire to add new membership groups. For example:

- Worker mobility today makes credit unions' membership base less stable than in the past, when many credit union members had a career-long relationship with their employer and their credit union.

- Downsizing or closings at manufacturing firms, military bases, and other large employers have shrunk the membership base of many occupational credit unions.

- NCUA policy requires a new credit union to have at least 500 persons eligible for membership, and some believe that the economics of starting a credit union today may actually require 1,000 or more such persons. Thus people who work at firms with fewer than 1,000 workers may not, as a practical matter, be able to form their own credit unions.

3. Safety and Soundness Factors

A tight common bond requirement can have mixed effects on a credit union's safety and soundness.

The affinity among members sharing a single, focused common bond helps limit loan defaults. In a credit union with a single common bond, a member would be less likely to default on a loan commitment because of the effect that the default would have on friends, neighbors, or coworkers, and because of the shame associated with the default. Because the credit union is a not-for-profit cooperative, it may also be more willing to develop an acceptable workout plan than would an impersonal, profit-maximizing financial institution.

On the other hand, the more that a credit union's membership shares a common bond of employment or otherwise has similar exposure to plant closings or other economic risks, the less diversified its exposure to credit risk. Diversifying the credit union's membership base tends to make the credit union more resilient in the face of problems experienced by any one local employer. Plant closings during the late 1970s and early 1980s led to numerous credit union failures because an individual plant typically sponsored a credit union and the credit union's membership consisted of the plant's workers. Such failures played a key role in prompting the NCUA's 1982 policy change.

4. Managerial Factors

Managerial factors may create incentives for credit unions to grow by adding new membership groups. A credit union board of directors seeking to attract high-quality, professional managers may find it easier to do so if the credit union is large, or has growth opportunities. Moreover, as credit unions are non-profit cooperatives, they do not remunerate their managers based on profit or stock performance. Instead, management compensation often reflects a credit union's size and product offerings. This may give managers an incentive to increase the credit union's size, and adding new membership groups would be an obvious method for doing so.

D. General Principles

Between the polar-opposite outcomes of having no common bond requirement and requiring all members of a credit union to share a single, tightly defined common bond, are an array of possible policies. We suggest that Congress consider possible policies in light of the following principles:

1. Reaffirm Credit Unions' Role in Serving People of Modest Means

Credit unions have historically had a special role in serving people of modest means. The Federal Credit Union Act reflects this public purpose: it is an "Act . . . to make more available to people of small means credit for provident purposes."

We believe that federal policy towards credit unions should continue to promote this objective. Credit unions have played, and should continue to play, an important role in serving the underserved. Low-income credit unions have charters that specifically reflect their mission of serving the underserved. But more broadly, credit unions help make financial services more affordable for (and in some cases, geographically available to) people of modest means.

2. Correct Perverse Incentives to Abandon Occupation- and Association-Based Federal Credit Union Charters

In response to a 1996 injunction against federal credit unions adding new membership groups, hundreds of federal credit unions have moved to convert to state charters or to community-based federal charters. Yet a stringent federal common bond requirement serves no public purpose if it merely prompts credit unions to switch to state charters with a looser common bond requirement (or none at all). Similarly, a stringent occupational or associational common bond requirement serves no public purpose if it simply prompts credit unions to switch to broad, geographically based charters (e.g., anyone who lives, works, or worships in Fairfax County, Virginia) with less real affinity than their old occupation or association-based charters. Left unchanged, the Supreme Court's ruling will tend to produce such perverse results.

The debate over the common bond requirement has thus far centered on federal credit unions. Current federal law imposes no common bond requirement on state-chartered credit unions (although some states choose to tie their own requirements to federal law). Yet state-chartered credit unions receive essentially the same benefits as federal credit unions, including federal deposit insurance and exemption from federal income taxation. We believe that public policy should avoid creating perverse incentives to seek one type of credit union charter over another, particularly if the upshot is to encourage credit unions to select charters that weaken the affinity among their members.

3. Preserve a Meaningful Common Bond as a Characteristic of Credit Unions

As I mentioned earlier, we see the common bond requirement as a distinguishing characteristic of credit unions, and one that reinforces credit unions' other characteristics.[5] A sense of affinity among members encourages credit unions to serve all their members, even those whose business may be unremunerative. For example, a hallmark of credit unions has been their willingness to make small unsecured loans -- loans so small that banks generally have little interest in the business. Yet the less members have a sense of affinity with one another, the less willing they may be to maintain such "unprofitable" services in the face of other opportunities. The more impersonal a credit union becomes -- and the more its members see each other as strangers -- the less the credit union is likely to distinguish itself from other depository institutions. A lack of meaningful membership restrictions may make credit unions highly competitive and flexible, but may also make them increasingly like banks operating under another name.

One cannot be certain in advance what effect weakening the common bond would have on credit unions' distinctive character. However, reducing the affinity among credit union members might well put strain on credit unions' cooperative, not-for profit orientation, including their willingness to pay special attention to members of lesser means (who may be relatively costly to serve).

4. Assure Safety and Soundness

Since credit unions serve an important role for many Americans, especially those of modest means -- and since federal deposit insurance protects the $300 billion in credit union deposits -- public policy should help assure the safety and soundness of credit unions. As credit unions grow larger and more impersonal, formal safeguards and effective supervision become all the more important.

5. Take Account of Market Dynamics

Most of the market dynamics described earlier justify giving credit unions reasonable flexibility to move beyond a single common bond. To recapitulate: economies of scale in providing technology-based services, downsizing, the large number of workers at firms too small to support their own credit union, and the safety and soundness benefits of diversification lend weight to permitting credit unions to expand beyond a single membership group. Yet other market factors -- such as the credit risk-reducing influence of a sense of affinity, and the dubious

---

[5] The common bond is widely recognized as a characteristic of credit unions. The International Credit Union Operating Principles of the World Council of Credit Unions (an affiliate of the Credit Union National Association), declare that "membership in a credit union is voluntary and open to all within the accepted common bond of association." These operating principles "are founded in the philosophy of cooperation and its central values of equality, equity and mutual self-help." This suggests that the World Council sees a connection between credit unions' values and an operating environment in which credit union members share a common bond.

managerial incentives for growth -- suggest limits on the economic case for attenuating the common bond requirement. Flexibility on the common bond requirement should be tempered by the other principles I have outlined.

6. Protect Existing Credit Union Members and Membership Groups

Since 1982, the NCUA has permitted credit unions to add unrelated membership groups to existing credit unions. Both the NCUA and the credit unions involved operated in good faith. Although the Supreme Court has found such actions to have gone beyond the bounds of the Federal Credit Union Act, we believe that disenfranchising existing credit union members or membership groups would not serve the public interest.

E. NEXT STEPS

Congress has time this year to consider carefully the proper course of future policy in this area. Whatever policy change Congress makes regarding the common bond issue will affect credit unions for many years to come, and will also affect the dynamic between credit unions and other financial institutions.

The Treasury looks forward to working with the Committee to develop legislation dealing with the common bond requirement. To begin, we would like to suggest that such legislation should: grandfather all existing credit union members and membership groups added before the Supreme Court ruling, and permit such membership groups to add new members; include the safety and soundness reforms outlined in the Treasury report; and preserve a meaningful common bond requirement while providing reasonable flexibility for credit unions to include additional groups within their membership.

III. CONCLUSION

In closing, let me summarize our four main conclusions and recommendations.

A deliberate, thoughtful approach is needed. We should keep in mind that our actions will affect credit unions, their members, and others for years to come.

Safety and soundness reforms should be part of any credit union legislation. In particular, a system of prompt corrective action, which has been so successful in bank and thrift supervision, should be enacted for credit unions.

Credit unions should be permitted to grow, and consumer access to credit unions should be enhanced in a manner consistent with the principles outlined here.

To-date, the common bond debate has been framed as an all-or-nothing contest in which one side wins at the expense of the other. An appropriate balancing of legitimate but competing interests requires careful deliberation and something other than a winner-take-all outcome.

We look forward to working with the Committee on these issues. I would be pleased to answer questions.

- 30 -

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

EMBARGOED UNTIL 2:30 P.M.
March 10, 1998

CONTACT: Office of Financing
202/219-3350

TREASURY'S WEEKLY BILL OFFERING

The Treasury will auction two series of Treasury bills totaling approximately $13,500 million, to be issued March 19, 1998. This offering will result in a paydown for the Treasury of about $1,475 million, as the maturing publicly held weekly bills are outstanding in the amount of $14,975 million.

In addition to the public holdings, Federal Reserve Banks for their own accounts hold $6,859 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 $2,661 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-2292

HIGHLIGHTS OF TREASURY OFFERINGS OF WEEKLY BILLS
TO BE ISSUED MARCH 19, 1998

March 10, 1998

Offering Amount	$6,250 million	$7,250 million
Description of Offering:		
Term and type of security	91-day bill	182-day bill
CUSIP number	912794 6T 6	912794 4Z 4
Auction date	March 16, 1998	March 16, 1998
Issue date	March 19, 1998	March 19, 1998
Maturity date	June 18, 1998	September 17, 1998
Original issue date	December 18, 1997	September 18, 1997
Currently outstanding	$11,324 million	$18,302 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 three decimals in increments of .005%, e.g., 7.100%, 7.105%.
(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 $1 billion or greater.
(3) Net long position must be determined as of one half-hour prior to the closing time for receipt of competitive tenders.

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

Maximum Award .... 35% of public offering

Receipt of Tenders:

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

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

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

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

EMBARGOED UNTIL 9:30 A.M. EST
Text as Prepared for Delivery
March 12, 1998

TREASURY SECRETARY ROBERT E. RUBIN
SENATE APPROPRIATIONS SUBCOMMITTEE ON TREASURY,
POSTAL SERVICE AND GENERAL GOVERNMENT

Mr. Chairman, members of the Committee, I appreciate the opportunity to testify on the Treasury Department's fiscal year 1999 budget request. With me today is Nancy Killefer, our Assistant Secretary for Management and Chief Financial Officer.

Treasury is requesting $12.3 billion in fiscal year 1999, an increase of 7.2 percent over FY 1998. This increase is necessary to maintain current operations by supporting mandatory cost increases and meeting anticipated workload requirements in FY 1999; to invest in critical capital improvements for future efficiencies and program improvements and for addressing future workload growth; and to accomplish important program enhancements.

Our request is critical to supporting Treasury's important and wide-ranging mission. The Treasury plays a key role in the core functions of government, including tax administration, revenue collection, law enforcement, financial management, tax policy, banking policy, international economic policy and domestic economic policy. As just a few examples, we fight narcotics trafficking and money laundering through Customs and other agencies, and manage the federal government's debt structure at the Bureau of Public Debt. We manufacture and protect the nation's currency, process the federal paychecks for millions of Americans, and help develop policies related to the budget, the nation's tax structure, international economic matters, and inner city economic development.

With such a broad portfolio, we take very seriously the notion that we must continually seek new ways to improve services and lower costs. Towards meeting these purposes, our budget request supports Treasury's Strategic Plan and provides a performance plan for each of Treasury's primary missions and we, and I as Secretary, have worked to make GPRA not a required exercise, but rather a live, integral part of our thinking to improve how we fulfill our

RR-2293

many missions. More broadly, we believe that we must not do anything that threatens the fiscal discipline so many have worked so hard to restore in this country, and which has been critical to the strong economic conditions of the past five years.

We've already provided the Committee detailed presentation material on the extent of our fiscal year 1999 request. Let me now highlight four areas -- Departmental offices, the IRS, law enforcement, and the year 2000 problem.

First, let me discuss Departmental Offices. Departmental Offices contain the policy groups that are meeting greatly increased challenges in the current environment: tax policy, which is developing the regulations to implement the tax cuts, loophole closers and simplifications of last year's budget; international economic policy, which is providing leadership for the United States and the world in response to the short and long-term issues of financial instability in the global economy; economic policy, which is deeply involved in international economic issues, entitlement reform, and the economic initiatives in the President's budget; and law enforcement, which has expanded policy and oversight objectives. Departmental Offices also contain the central management functions for all of Treasury, and in furtherance of our very serious focus on management, human resources, and technology, these functions are being enhanced.

In addition, our budget request includes funding for a five year restoration and repair program of the historic Treasury Department building. Part of this funding -- which totals $130 million over five years -- is needed for our ongoing restoration of areas damaged by the fire in 1994, and part is needed for general restoration. The Treasury building is one of the gems of our government, as well as being a workplace. It is important to maintain this historically significant and beautiful building for future generations.

Second, let me turn to the Internal Revenue Service.

Shortly after I first became Secretary, I became aware of serious problems at the IRS. In many cases, those problems came to my attention as a result of the work and diligence of this Committee. Over the last two and a half years we have been engaged in a highly intensified process of change and reform at the IRS that has led to dramatic change with respect to technology -- though that is just the beginning of getting to where we need to go -- increased electronic filing, improved telephone service and a greatly strengthened Taxpayer Advocate. Perhaps most importantly, and symbolizing our commitment to thoroughgoing change, we brought on board a new type of Commissioner, Charles Rossotti, who had extensive experience as a CEO in the private sector, with expertise in computer systems. And, let me just add, we are looking very hard to find a new CIO to replace Art Gross, who has done such a outstanding job in that position.

However, while important steps have been taken, the great bulk of the challenges lie ahead. Just as these problems took a long time to develop, it is going to take a great deal of time and effort by all of us to build the kind of IRS that the taxpayers deserve. We are committed to working with you to accomplish that goal. Our budget request includes a series of items to advance this effort.

First, our request includes additional resources to improve customer service, including increasing and improving the quality of telephone access, rewriting of notices and forms, expanding the Taxpayer Advocate staff, and implementing Citizen Advocacy Panels.

Second, our request positions the IRS to move forward with implementing the Modernization Blueprint, which is absolutely a requisite to improvements in customer service, efficiency, tax compliance and financial reporting. On a broader front, the budget provides seed funding as the Service moves more fully to implement its new organizational concept.

Finally, our request includes important restoration of funding for essential business-line investments. This funding has been deferred and reallocated over the past two years to address immediate Year 2000 requirements, about which I will say a few words in a moment. However, significant needs still exist for these investments in order to replace critical items such as aging computer equipment for front-line examination personnel. This investment is essential to our goal of providing efficient compliance operations and effective service to taxpayers.

Let me turn now to our budget request for Treasury's law enforcement activities.

As this committee well knows, Treasury has extensive and critical law enforcement responsibilities executed by Customs, the Secret Service, Alcohol, Tobacco and Firearms, the IRS, FINCEN, and the Federal Law Enforcement Training Center. To strengthen these critical efforts, the President's FY 1999 budget for Treasury law enforcement bureaus totals $3.204 billion, an increase of $172 million or 5.7 percent above last year. We need this increase to meet certain mandatory cost increases, and to enhance our activities in combating narcotics trafficking, reducing illegal firearms trafficking to young people, improving Presidential protection and White House security, investigating financial crimes, and training law enforcement officers.

Mr. Chairman, we at Treasury have enormous pride in the quality and esprit of our law enforcement bureaus, and of the men and women who serve in them, often putting their lives on the line. I spend time on an on-going basis on law enforcement issues, and we at Treasury are committed to fully supporting the efforts by the law enforcement bureaus to do their jobs, as in the Secret Service decision to enhance White House security, ATF's reforms and its defense against strident attacks, and the securing of appropriate funding.

Finally, Mr. Chairman, let me say a word about an issue of pressing importance to our nation and one on which we are keenly focused at Treasury: the Year 2000 date change problem. As you know, many computer systems rely on two digit dates as a result of a short cut computer programmers widely used until recently. The year 2000 would be entered as "00" but interpreted as "1900." As a result, these computers will not be able to execute many required functions properly as of January 1, 2000. As an agency with massive computer system activities second only to the Defense Department in the Federal government, this issue is one of the highest priorities to us. I meet bi-weekly with Assistant Secretary Nancy Killefer and our highly respected Treasury CIO to track progress and focus on problems.

Our FY 1999 budget includes $253 million to address this problem at Treasury. Treasury's date change needs are also part of the Administration's FY 1998 Supplemental Budget Request. We have identified close to $200 million in additional needs in the current year that must be funded if we are to complete the fixes in time, but the supplemental proposed by the Administration includes additional flexibility of up to $250 million in order to fund these requirements. To date, we have identified new requirements of approximately $175 million that need to be addressed this fiscal year. We look forward to working together with the Committee in addressing these critical requirements.

In both the private and public sectors, cost estimates and time lines on Y2K compliance have exceeded expectations. So that we can meet this challenge in time, Treasury is focussing on only those systems most critical to its mission. The challenge is enormous, but we have made significant progress thus far and continue to be on schedule for almost all our mission critical systems.

Mr. Chairman, let me conclude on a personal note. Throughout my experience in government, which includes two years at the National Economic Council, and three years at Treasury, I have been continually impressed by the intelligence, professionalism and dedication of the people with whom I've had the opportunity to work.

A Secretary of any Department faces a lot of challenges, including a multitude of policy issues, and has to make judgements about priorities. When I was first nominated to be Treasury Secretary I had dinner with a former Treasury official who had served with two administrations and who advised me that my highest priority should be to focus on maintaining and building on the excellence of this institution. He was absolutely right. We have been intensely focused on management issues in my tenure and it is in that spirit that I ask you to approve our budget request. Let me also say that I have been continually impressed by the capability, the professionalism, and the commitment of the people at Treasury and the Bureaus, and they deserve our support on their work to fulfill their wide range of responsibilities in serving the American people. I also feel that in my time at Treasury this Committee has made a major contribution to the management of Treasury through its constructive and knowledgeable analysis and review, and through its support for funding. Thank you very much and I look forward to working with all of you in the future as we face our challenges.

-30-

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

EMBARGOED UNTIL 9:30 A.M. EST
Text as Prepared for Delivery
March 12, 1998

TREASURY UNDER SECRETARY FOR DOMESTIC FINANCE JOHN D. HAWKE SENATE APPROPRIATIONS SUBCOMMITTEE ON VA, HUD, AND INDEPENDENT AGENCIES

Mr. Chairman, members of the Subcommittee, it is a pleasure to speak with you today about our Fiscal Year 1999 budget request for the Community Development Financial Institutions Fund. I am pleased to be joined today by Ellen Lazar, the new Director of the CDFI Fund.

The President's budget for FY99 includes $125 million for the CDFI Fund. This funding is a critical component of our strategy to promote private sector-led economic growth in economically distressed areas.

As Secretary Rubin has often said, this is an issue of vital importance to all of us -- no matter where we live or what our incomes may be. It is a fundamental national *economic* issue, because our country will never reach its full economic potential, unless we succeed in bringing all Americans into the economic mainstream.

The Administration's strategy has three components: investing in people, through education and training; strengthening public safety; and encouraging business investment with improved access to capital to create jobs and foster growth. At Treasury, we are energetically involved in this effort by bringing our broad expertise in financial institutions and tax policy to bear on these issues, from tax incentives for investment to strengthened regulations under the Community Reinvestment Act. One of the most important components of our strategy is the CDFI Fund.

The CDFI Fund's aim is to expand access to credit and financial services in lower income urban, rural, and Native American communities, areas where one of the biggest obstacles to

RR-2294

economic growth is a lack of access to private sector capital. With CDFI, I believe we have a new, more market-driven approach to community development. CDFIs around the country, with the Fund's support, are helping to open up new markets, demonstrate the viability of lending to low income communities, partner with mainstream financial institutions in innovative ways, and mentor and grow small businesses. By filling market niches and drawing mainstream financial institutions into low income communities through partnerships, CDFIs help to make our financial system work for more Americans. In many respects, we are witnessing a quiet revolution in the approach taken to community development, with CDFIs helping to prime the pump.

The CDFI Fund has two main programs: the CDFI program, which is designed to assist specialized community development financial institutions, and the Bank Enterprise Award program, which rewards financial institutions that are increasing their lending and providing more financial services in distressed communities. The two programs are complementary, and both pursue strategies designed to meet unique local needs, whether it is helping families to buy a house, or a budding entrepreneur to start a business, or a community to provide the child care facilities working families need.

The program is still young, but we are already seeing signs of success. Thus far, the Fund has awarded $75 million to nearly 80 CDFIs around the country. These dollars are required to be matched at least one-to-one with non-Federal dollars by CDFI award recipients. Moreover, the Fund's investments become part of the capital base of the CDFIs, further leveraging federal dollars. Finally, the federal dollars are leveraged again, as the CDFIs, often with other financial participants, make investments or loans for individual projects.

These investments are making a difference. For example, Bethex Federal Credit Union in the South Bronx, a small financial institution originally founded in 1970 by former welfare recipients, received a $100,000 grant from the CDFI Fund to expand its financial services and increase its business lending. Over the past 18 months, Bethex's membership has grown from 1,270 to 3,000 and its assets have increased from $1.6 million to $3 million. In addition, Bethex has launched "School Banking," to encourage savings among students.

Let me describe the impact that the Fund had on one individual. Andrew Fuentes of San Antonio was too ill to return to his construction job. At his wife's suggestion, he made a table and set of chairs for their empty kitchen out of some old wood. Soon afterward, Mr. Fuentes was selling his rustic furniture to friends, and he began making furniture full time. Fuentes approached several banks for a loan to expand his business, but was turned down because of his credit history. He eventually applied for and obtained a $3,000 loan from ACCION Texas, a local 1996 CDFI awardee. This loan has already allowed him to expand his inventory and double his sales.

With respect to the BEA program, more banks and thrifts than ever before are reaching out to their communities and are investing in CDFIs. This year, the Fund received 104 applications, a 40 percent increase over last year's applications. The Fund's $30 million in BEA investments have already leveraged $273 million in bank activities. Moreover, many of the awardees are choosing to reinvest the awards they receive for past performance back into community development projects. In this way, the CDFI Fund is getting increased private sector leverage for federal dollars.

Central Bank of Kansas City, Missouri, for example, was awarded $99,869 for increasing its loans and services in distressed neighborhoods by more than $8.3 million during the first half of 1996. In addition to loans for housing and other purposes, the bank made a significant loan to help a major manufacturer and employer remain in the community.

As with any new organization, there have been some growing pains. Let me emphasize that congressional oversight has been useful in helping the Fund strengthen its internal controls and procedures. I believe that we have dealt with those problems effectively, and we will continue to improve procedures as this program grows and matures. In fact, the Fund was recently given an unqualified audit for its activities since inception. The audit also confirmed the findings of the Fund's management that material weaknesses had existed in the past, and that the Fund had corrected or was in the process of correcting each of those weaknesses. We are moving this program forward with the new leadership of Ellen Lazar, who I believe brings to the job the dedication, the many years of experience in community development, and the energy needed to implement the CDFI Fund's important work in the years ahead.

Mr. Chairman, the Fund's vision makes sense, it has strengthened its internal controls, and the Fund's investments are beginning to make a difference in people's lives. Since its inception, CDFI has enjoyed bipartisan support. I look forward to working with all of you to secure the President's request for $125 million in funding for Fiscal Year 1999, so that CDFI can help more local communities across the country rebuild neighborhoods, create jobs, and restore hope. CDFI is a solid investment in the long-term economic well being of not only those communities, but all of us. Thank you very much.

-30-

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
March 12, 1998

Contact: Hamilton Dix
(202) 622-2960

U.S. TREASURER JOINS CONGRESSMAN HOYER AT SCHOOL TO PROMOTE SAVINGS

United States Treasurer Mary Ellen Withrow and Congressman Steny Hoyer will speak to Calvertion Elementary fourth and fifth graders about saving for the future at 9:30 a.m. on Monday, March 16, 3400 Beltsville Road, Beltsville, Maryland.

Treasurer Withrow will talk with students about the redesigned $100 and $50 issued in the last two years and the redesigned $20 that will be released this year. She and Congressman Hoyer also will talk to the students about the new 50 state commemorative quarters, particularly the state of Maryland quarter to be issued in 2000.

Interested media should use the main entrance and cameras may set up beginning at 9 a.m.

-30-

RR-2295

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

FOR IMMEDIATE RELEASE
March 12, 1998

Contact: Peter Hollenbach
(202) 219-3302

BUREAU OF THE PUBLIC DEBT AIDS SAVINGS BONDS OWNERS AFFECTED BY FLOODING IN ALABAMA

The Bureau of Public Debt took action to assist victims of flooding in Alabama by expediting the replacement or payment of United States Savings Bonds for owners in the affected areas. The emergency procedures are effective immediately for paying agents and owners in those areas of Alabama affected by the storms. These procedures will remain in effect through April 30, 1998.

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

Alabama counties involved are Coffee, Dale, Escambia, Geneva and Houston. Should additional counties be declared disaster areas the emergency procedures for savings bonds owners will go into effect for those areas.

The replacement of bonds lost or destroyed will also be expedited by Public Debt. Bond owners should complete form PD-1048, available at most financial institutions or by writing the Richmond Federal Reserve Bank's Savings Bond Customer Service Department, 701 East Byrd Street, Richmond, Virginia 23219; phone (804) 697-8370. This form can also be downloaded from Public Debt's website at: www.publicdebt.treas.gov. Bond owners should include as much information as possible about the lost bonds on the form. This information should include how the bonds were inscribed, social security number, approximate dates of issue, bond denominations and serial numbers if available. The completed form must be certified by a notary public or an officer of a financial institution. Completed forms should be forwarded to Public Debt's Savings Bond Operations Office located at 200 Third St., Parkersburg, West Virginia 26106-1328. Bond owners should write the word "Storms" on the front of their envelopes, to help expedite the processing of claims.

RR-2296

oOo

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
March 16, 1998

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Term:	91-Day Bill
Issue Date:	March 19, 1998
Maturity Date:	June 18, 1998
CUSIP Number:	9127946T6

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate 1/	Price
Low	4.970%	5.102%	98.744
High	4.985%	5.118%	98.740
Average	4.985%	5.118%	98.740

Tenders at the high discount rate were allotted 41%.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 38,284,957	$ 4,374,146
Noncompetitive	1,347,326	1,347,326
PUBLIC SUBTOTAL	39,632,283	5,721,472
Federal Reserve	3,184,310	3,184,310
Foreign Official Inst.		
Refunded Maturing	531,608	531,608
Additional Amounts	3,292	3,292
TOTAL	$ 43,351,493	$ 9,440,682

1/ Equivalent coupon-issue yield.

RR-2297

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
March 16, 1998

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Term:	182-Day Bill
Issue Date:	March 19, 1998
Maturity Date:	September 17, 1998
CUSIP Number:	912794Z4

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate 1/	Price
Low	5.010%	5.212%	97.467
High	5.025%	5.227%	97.460
Average	5.025%	5.227%	97.460

Tenders at the high discount rate were allotted 42%.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 33,474,286	$ 3,987,768
Noncompetitive	1,155,167	1,155,167
PUBLIC SUBTOTAL	34,629,453	5,142,935
Federal Reserve	3,675,000	3,675,000
Foreign Official Inst.		
Refunded Maturing	2,129,092	2,129,092
Additional Amounts	12,908	12,908
TOTAL	$ 40,446,453	$ 10,959,935

1/ Equivalent coupon-issue yield.

RR-2298

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

EMBARGOED UNTIL 6:15 PM
Remarks as Prepared for Delivery
March 16, 1998

"Latin America and the IDB: New Challenges for a New Century"
Remarks by Lawrence H. Summers
Deputy Secretary of the Treasury
Inter-American Development Bank Annual Meeting
Cartagena, Colombia

Distinguished Governors, Mr. President, delegates and friends. It is great to be in this historic city of Cartagena. I am especially glad to be here at a time when in the world of finance -- the Latin American model is a model to emulate not a model to avoid.

That Latin America has not been a source of crisis -- financial, diplomatic or political -- in recent years cannot and will not blind us to the fact that it is a vast source of opportunity. President Clinton has spoken of a "quiet revolution bringing our hemisphere together around common values of democracy, free markets, mutual respect and cooperation". We celebrate the fact that we are now -- with one dogged exception -- a community of democracies. And we take note that each year the United States exports more to Chile than to India and more to Brazil than to China.

In so many ways, what we do together in the Americas these next years will form a model for what is probably the major global challenge we face at the dawn of a new century: forging the healthiest, sturdiest possible relationships between the mature economies and the emerging markets. Here at the IDB and everywhere else we seek the right kind of relationship: a relationship in which the United States cooperates always, leads when it can and follows when it should.

I remember well the first IDB meeting I attended, four years ago in Guadalajara, in the build-up to the first Summit of the Americas in Miami in December 1994. At that meeting, as we celebrated the Bank's Eighth Capital Replenishment, the themes of sustaining macroeconomic progress, continuing integration, and launching second generation reforms to cement democracy were very clear. Since then the IDB has continued to play a core role in regional development, in part by bringing home a vital lesson for all development banks: that intangible infrastructure, all the institutions, skills and cooperative arrangements that reside in a country, is as important, in many ways more important to development than tangible infrastructure.

RR-2299

Now we meet on the brink of another Summit of Americas next month in Santiago de Chile. And once again it is a time when it is appropriate to consider the role of the IDB in a fast changing hemisphere. But first let me reflect a little on what has happened these past four years.

I Latin America Today: Reform Continued

Almost immediately after the Miami Summit we were all surprised by events in Mexico. Many feared that that shock, like the 1982 debt crisis before it, would spur another inwards turn. In the event, as many have noted, the Tequila shock was a wake-up call. Economic collapse among the major reforming economies did not materialize. And important progress has been achieved in most of the areas that were uppermost in our minds in Guadalajara.

1. Macroeconomic reform sustained

Progress against inflation has continued, in some countries spectacularly so. Pedro Malan told President Clinton in October that inflation in Brazil was five percent -- much the same as it was a few years ago. The difference is that now it is five percent per year, not per week. The average inflation rate fell to less than 10 percent last year, compared with 61 percent in 1994, and more than 200 percent in 1990. Public borrowing, by and large, has also remained under control -- with governments working to lock in the fiscal consolidation of the early 1990s. And national savings rates last year averaged nearly 18 percent of GDP -- 20 percent higher than in 1990.

2. Integration Deepened

The integration we had achieved when we met in Mexico has accelerated and it has deepened. In 1994 I counted 23 trade agreements within the Americas. Today I count 30. And it is not merely goods that are crossing our many borders. Ever more services, capital, people and ideas are flowing across the hemisphere, with profound effects for our economies and our societies. By increasing cooperation, by working to harmonize standards and exchange ideas, the United States has played and will continue to play a full part in this transformation. We do not yet have Fast Track. But we are determined that the Free Trade Area for the Americas will remain on a fast track -- just as all the important work laying the groundwork for the Uruguay round proceeded in the first few years.

3. A Second Generation Begun

In 1994 we could see government by the people across the region. What we needed still to create was effective government for the people. Since then we have seen many countries continue the first important steps toward this -- by making it near the people, with efforts across the region to strengthen local democracy and decentralize power and resources to subnational authorities. And at the national level, ambitious growth-enhancing ideas for pensions, tax systems and financial sectors have been put to work. Not all countries are moving at the same pace. And in none is the job complete. But the change is palpable. And its direction is clear.

4. A Closer Look

But of course, the story of Latin America is the story of each Latin American country:

- in Mexico, we have seen a courageous turn to pluralism and a truly remarkable economic turnaround. The challenge in the years to come will be to entrench these gains by combating social divisions and building a prosperity which all can share;

- in Brazil, for the first time in a generation, company accounts are beginning to be kept in domestic currency rather than dollars, and the government has impressed the world by combating Asian flu at the first symptoms. Its priority now must be deeper public sector reform, not just to cut borrowing but to target resources on urgent social investments;

- years of fiscal reform and financial sector strengthening have left Argentina well insulated from Asia shockwaves. But high unemployment is a nagging reminder of the need to press ahead with the government's unfinished reform agenda: in the labor market especially.

- the news from the Caribbean has been a greater source of concern. Elected government has returned to Haiti since we met in Mexico, but has struggled to throw off the divisions of the past. There, as elsewhere, macroeconomic stability and growth remains all too elusive.

- yet in Central America we have seen, most recently in Guatemala, an end to more than a generation of civil strife and the beginnings of new future. But we know well that peace treaties need shared institutions and shared growth to bring them to life.

II Challenges For A New Century

The good news from this brief survey is that, by and large, Latin America is in better shape to withstand this recent shock than it was 4 years ago. The question is: where do we go from here? It is perhaps of the nature of "quiet" revolutions that they take longer to complete. The themes that were right in 1994 are right today. The abiding challenge is the same: to make government a constructive force in our economics and our societies, a force, above all, for inclusive growth.

The 1990s has been no lost decade. But the 3 percent average growth that has been achieved since 1991 has not been enough to make real inroads on poverty in many countries. And the poorest fifth of the population still receive a lower share of national income, and the richest fifth a higher share -- than in any other region in the world. Losing that dismal distinction will mean completing the first generation of reforms in those countries where inflation is still in double digits and poor macroeconomic policy still stifles investment and growth. But as we have learned these past few years, that is not all it will require.

Markets are important. But they are not enough. The strong enforcement of legitimate law remains a critical imperative for building a strong civil society -- the key to a vibrant democracy. Let me applaud, in this context, the IDB's increased emphasis on good governance and capacity building in its operations, particularly in helping countries build sound judiciaries.

From fair labor rights to effective policies against drug trafficking; from the protection of our environment to the vaccination of our children; from the empowerment of the indigenous to the punishment of the corrupt; there are many critical challenges we face in building effective government for the people. Let me focus today just on two areas that I expect will be at the center of discussions at Santiago and I believe will be profoundly important to Latin America's future, and with it the future of the IDB. These are: achieving strong and stable financial integration, and investing in our people.

III Promoting Strong and Open Regional Finance

Integration is about much more than trade. It is about companies investing in new markets and profit-making opportunities. It is about flows of capital -- and the knowledge that flows with that capital. And it is about safeguarding the stability of the systems into which that capital flows. Latin America's insulation from the recent Asian crisis is a reflection of the steps that nations have taken, both individually and collectively, to ensure stability since that first 21st century financial crisis in 1995. Indeed, in many ways the work of the Committee on Hemispheric Financial Issues (CHFI) since its first meeting of Finance Ministers in New Orleans in May 1996 is pointing the way toward the kinds of approaches that will be pursued globally in the months ahead.

Of particular importance will be the commitments reached at the most recent CHFI meeting in Santiago de Chile in December:

- to strengthen banking supervision and prudential regulation, with the universal adoption of the Basel Core Principles for Effective Banking Supervision and high quality training to ensure our supervisors are up to the challenges that modern financial markets present;

- to combat money laundering and other financial crime, by working -- as we now do at Treasury -- to find new ways to close the channels for moving illicit funds into the economy and put the launderers in the jails where they belong;

- to support the development of microfinance, which the IDB has long recognized as a uniquely effective way out of poverty for the marginalized and dispossessed. From its support for rural credit unions in Bolivia to women's banking in Colombia, the Multilateral Investment Fund has truly, here, been a world leader.

Going forward, this region which has far and away the greatest presence in global bond and equity markets of any emerging market region needs to set the pace in other crucial areas;

- let it show the way in transparency, with, not seven, but all of the countries in the region subscribing to the International Monetary Fund's Special Data Dissemination Standard;

- let borrowers and creditors work together to build a financial system that can handle failure, that has the strong bankruptcy laws, effective judicial systems, and reliable enforcement that can help ensure that the failure of one does not jeopardize the whole. Because until the system is safe for failure, we cannot count on its success;

- let us now, when the clouds have come here but have passed us by, promote effective regional surveillance, built on the principle that friends warn friends when trouble is near;

- and let us, at the center of this effort, think about the role of a multilateral bank when most of the borrowing is done by countries that have access to international capital markets most of the time. That ought to mean focusing on the kinds of programs and products that can ensure that capital access is maintained -- when surprises hit -- and charging market rates for providing that support. And it ought to mean focusing scarce official finance on the needs of countries to whom private capital is still denied.

We emphasize financial stability because we know all too well the human cost that financial instability inflicts. Stabilizing capital flows is a means to a more ultimate end: of maximizing growth and opportunities for all our people. It is not an end in itself. In promoting free flows of capital we must not neglect the broader risks they pose to our society and environment. As capital finds it can move ever more readily than labor, there are legitimate concerns that it will exploit that mobility in playing off competing jurisdictions against each other. The fear is that we will be caught in a race to the bottom -- a bottom in which governments cannot promote fair taxes, uphold fair labor standards or protect the environment. That is not the world that we want to build. Let all Americans -- North and South -- affirm that we will not let it be the future of our Hemisphere.

IV Investing in All of Our People

At Santiago our heads of government will declare where our future lies -- it lies with education. If achieving financial stability was the challenge of the latter years of this century, then investing in our people is our challenge at the dawn of the next.

In a global economy, education is the only route to lasting, inclusive growth. Because it is the only way to maximize every nation's most unique and precious asset: its people. That is why President Clinton has been the education President. And that is why, in President Zedillo --- a former education minister -- and President Cardoso -- a former educator -- he has found such common cause together with the host, President Frei, in making education the centerpiece at Santiago.

Our children should be stimulated by books, not drugs. Teenagers should learn how to read -- not how to hotwire a car.

Education is too important to do poorly. If the International Financial Institutions (IFIs) and the interactions between national governments are essential to ensuring that our banking systems remain stable, if they are essential to ensuring that our telephone systems work, then they are essential to ensuring that our education systems work.

In an increasingly interconnected hemisphere, we all have a common stake in the citizens of all our countries. We call on the IFIs to monitor carefully governments' efforts here: as they monitor the operation of fiscal policies, to monitor the allocation of resources for education; as they monitor the state of the tax system, to monitor the state of the education system.

Doing better will sometimes be a matter of resources. Without adequate resources, there cannot be adequate investments in people. But equally, if not more, important will be spending more wisely the resources we have now. In too many Latin American countries, too much of the education budget gets spent on higher education for the few. We need to spend those resources on better education for the many.

Study after study confirms what common sense would suggest, that investing in broad-based primary education offers countries by far the larger return. In Miami we committed ourselves to ensure, by the year 2010, universal access to and completion of quality primary education, and access to secondary education for at least 75 percent. We ought to honor that commitment.

That must mean targeted policies to reach the marginalized. And it must mean rigorous and effective evaluation of teaching quality. High repetition rates and widespread functional illiteracy tell us that a large amount of the teaching in this region is not worthy of the name. Our emphasis must be on education in substance and not just in form.

This is a task that should be and must be a task for individual nations to finance. But a Hemispheric effort can make a big difference. As we move to the Summit we need to re-examine our priorities. And we need to put education at the very top -- as the leaders will in five short weeks.

In the past three years the IDB has approved more than $1.5 billion in loans for education -- around 7 percent of its new lending. The Banks needs to do more. We call on the IDB to more than double the share of new lending to primary and secondary education in the next three years -- to more than $3 billion.

But we cannot and must not stop there. We believe there is a pressing need for an innovative vehicle to meet the special challenges which educating our continent will present. To meet that need we believe the IDB should establish a Special Fund for Hemispheric Education. This could:

- provide loans and grants to plug the gaps in well-intentioned reforms -- the times when teachers are trained but have no books, when schools are built but have no teachers; when parents seek involvement but need mechanisms to organize themselves;

- bring new resources to bear on steps that can help us integrate as we educate -- such as developing more systematic testing systems and uniform performance standards across countries;

- channel funds into finding more innovative ways to reach those who have most often been forgotten: the very poor, the rural and isolated, minorities, and the young adults who want a new chance to complete an "equivalency" at the secondary level and to upgrade their skills to be more productive members of society;

- look creatively for special initiatives to advance our shared goals -- for example, using regional exchange to improve teaching quality.

Assuredly the Fund will need simplified procedures for rapid response. Just as assuredly, it will need the mobilization of a wide range of Bank resources to make a difference. Educating our people is the central challenge of our time. If we are serious about meeting that challenge we must be serious about marshaling Bank resources to meet it. The Bank will have to utilize the full range of its resources, including scarce concessional funds and local currency balances, in a way that is more just and more sustainable.

The desirability of the goals is not in question. What will be in question is the depth of our commitment to them. We must invest in all Americans -- North and South. Because if the 20th century was thc American century, the 21st century must be the century of the Americas.

-30-

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

March 16, 1998

The Honorable Newt Gingrich
Speaker
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Speaker:

This Administration has been a strong proponent of financial modernization legislation that would reduce costs and increase access to financial services for consumers, businesses and communities. Although the House Republican leadership draft of H.R. 10 would remove some archaic restrictions that have hampered innovation by our financial institutions, it fails to achieve true reform. As currently drafted, the bill would stifle innovation and efficiency in the national banking system, diminish the ability of communities and consumers to benefit from our financial system, eliminate advantageous features of the current thrift charter, and impose needless costs on small banks.

The bill would materially weaken the national banking system by depriving national banks of powers they now have, by subjecting national banks to anticompetitive limitations inapplicable to state-chartered banks, and by exposing national banks to discriminatory state laws. The bill would also leave in place archaic and unjustifiable limitations on the ability of national banks to compete. Taken as a whole, these changes would diminish the national charter, make national banks less competitive, and undermine the authority of the Office of the Comptroller of the Currency.

Similarly, the bill strips away the benefits of the thrift charter -- without making the benefits of that charter available to all depository institutions, as the Treasury did in its legislative proposal.

Instead, at the expense of banks and thrifts and their customers, the bill dictates that financial services companies conduct new financial activities only in a bank holding company affiliate. A bank that wished to avail itself of new powers would thus have to transfer capital to an affiliate, thereby depleting the bank's resources and shifting any earnings benefit from the bank to the affiliate. This requirement would also cause a wholesale transfer of financial resources outside of the reach of the Community Reinvestment Act, under which banks and thrifts made $18 billion in loans to communities in 1996 alone. Communities, consumers, and those small banks unable to afford this new structure would clearly be among the losers under the draft bill.

RR-2300

None of these steps is warranted by safety-and-soundness concerns, and none is necessary to create competitive equity among various providers of financial services. Taken as a whole, they serve only to stifle creativity, reduce benefits to consumers, and undermine the nation's dual banking system. In this respect, the bill is the antithesis of real financial modernization.

The Administration continues to support financial modernization. However, given the profound deficiencies that I have described, and others that my staff will subsequently detail, we oppose this bill and would not recommend its enactment. We nonetheless stand ready to work with you and the Democratic leadership to cure its deficiencies and produce a bill that would achieve real reform.

Sincerely,

Robert E. Rubin

cc: The Honorable Richard K. Armey
The Honorable John A. Boehner
The Honorable Tom Bliley
The Honorable James A. Leach
The Honorable Michael G. Oxley
The Honorable Richard A. Gephardt
The Honorable John D. Dingell
The Honorable John J. LaFalce
The Honorable Bruce F. Vento

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

March 16, 1998

The Honorable Ted Stevens
Chairman
Committee on Appropriations
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

I am writing to express our views on the bill to provide supplemental appropriations and authorization for U.S. participation in the New Arrangements to Borrow (NAB) and the increase in quotas for the International Monetary Fund (IMF), a draft of which was presented to us today. It is my understanding that the Committee intends to take action on the bill tomorrow, and I hope these views will prove useful to you and your colleagues as the bill moves toward enactment.

Let me begin by expressing our appreciation for the draft bill's recognition that the Congress should act now to authorize and appropriate funds for both the NAB and the quota increase. We believe that immediate approval of these requests is necessary to provide the IMF with the resources it needs to protect the international financial system - and therefore the U.S. economy - against the risk of new or escalating financial crises of the kind now gripping key East Asian economies. By beginning Senate consideration of these requests together, your bill takes a very constructive first step toward achieving an objective that we believe is very much in the interests of all Americans.

In this context, I ask that you consider our several grave concerns with some of the provisions of the draft bill. These concerns relate primarily to the procedural requirements attached to the proposed appropriation for the quota increase, not necessarily to the underlying policy objectives of such requirements. In fact, it is fair to say that we are in agreement with many of those objectives as policies that the United States should vigorously promote at the IMF. A number of the draft bill's proposed procedures for achieving those objectives are extremely impractical, however, to the point of being genuinely unworkable. Our major concerns include the following:

Section 101 of the bill would condition the availability of the increased U.S. quota resources on a Secretarial certification that the IMF's Executive Board has "agreed by resolution" that all lending agreements with member countries include certain specified provisions. This creates several very serious problems for us. First, it would likely delay indefinitely the implementation of the quota increase, denying the IMF the resources it needs to perform its mission during a period of crisis. Under the terms of the IMF resolution governing member-country assent to the quota increase, member countries cannot condition their assent, as this legislation would require. (This precludes conditioning the availability of U.S. funds on formal decisions by the IMF, but does not preclude the U.S. undertaking a commitment to use its "voice and vote" to promote certain policies at the

IMF.) As a result, Section 101 as currently drafted would prevent the quota increase from going into effect. Second, Section 101 subjects U.S. funding of its increased quota commitment to an event beyond its control, in this case a decision by most of the IMF's 182 member countries. At the very least, it would take considerable time to form a consensus among such a large and diversified group of sovereign nations, especially on a set of very specifically worded provisions that must be part of every loan program extended by the Fund. Finally, as I am sure you can appreciate, many members of a multilateral institution like the IMF most likely would voice strenuous objection to unilaterally imposed conditions on the use of IMF financial resources, regardless of whether such conditions emanated from its largest or smallest member. For all these reasons, the enactment of such conditions would pose risks that we believe we simply cannot afford to take at this time of international financial crisis.

Section 101 would require the IMF to include three provisions in every lending program. Let me say a few words about the prospects for, and advisability of, pursuing such objectives as blanket IMF policy rather than as elements of individual programs on a case-by-case basis, as was done in the recent Asian programs. First, while the IMF does pursue trade liberalization in its lending programs, it has never played a role in the enforcement of global trade agreements signed by its members. It is our view that we most likely would not be successful in convincing the IMF membership to adopt such a new role. Second, while the IMF seeks to combat unproductive, non-transparent subsidies on a case-by-case basis, it would be uncomfortable at best for the U.S. to be advocating a complete elimination of all subsidies when the U.S. itself would not meet this standard because U.S. law authorizes a wide range of subsidies. Finally, the wording of the provision requiring borrowing countries to guarantee non-discriminatory treatment in debt resolution proceedings could make the achievement of an international consensus on this point very difficult.

Section 102, like Section 101, imposes a certification requirement. We fully support the objective of providing GAO access to IMF information and documents, and in fact believe that, consistent with current IMF policy, such access already exists. However, a Secretarial certification regarding such a decision raises many of the concerns outlined above.

Section 105 specifies certain reports that the Treasury would be required to submit on a regular basis to Congress. While we have no objection in principle to such reporting requirements, as currently drafted the bill establishes an ambiguous threshold for the types of information we would be required to provide on what could amount to well over 100 transactions per year.

Section 106 requires the Secretary to make certifications that no IMF resources, "directly or indirectly," have resulted in support of the Korean semiconductor industry "in any form." While it is certainly not the goal of the IMF program to provide such support, and while the U.S. and other members have worked assiduously to structure program conditionality to preclude such support, it is genuinely unworkable, if not impossible, for the Secretary to certify that there has been no indirect impact as a result of IMF support.

There are other provisions of the draft that we find problematic, but these are some of the major concerns I wanted to highlight for you. I hope our respective staffs will have the opportunity to discuss all of this in greater detail and to work out provisions that meet our mutual goals in a way that is practical and doable.

Again, let me say that your working to move the IMF quota increase and the NAB forward together is very constructive. We look forward to working with you to enact the legislation at the earliest possible legislative opportunity.

Sincerely,

Robert E. Rubin

Robert E. Rubin

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
March 13, 1998

Contact: Peter Hollenbach
(202) 219-3302

BUREAU OF THE PUBLIC DEBT AIDS SAVINGS BONDS OWNERS AFFECTED BY FLOODING IN GEORGIA

The Bureau of Public Debt took action to assist victims of flooding in Georgia by expediting the replacement or payment of United States Savings Bonds for owners in the affected areas. The emergency procedures are effective immediately for paying agents and owners in those areas of Georgia affected by the storms. These procedures will remain in effect through April 30, 1998.

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

Georgia counties involved are Baker, Dougherty, Irwin, Miller, Montgomery and Seminole. Should additional counties be declared disaster areas the emergency procedures for savings bonds owners will go into effect for those areas.

The replacement of bonds lost or destroyed will also be expedited by Public Debt. Bond owners should complete form PD-1048, available at most financial institutions or by writing the Richmond Federal Reserve Bank's Savings Bond Customer Service Department, 701 East Byrd Street, Richmond, Virginia 23219; phone (804) 697-8370. This form can also be downloaded from Public Debt's website at: www.publicdebt.treas.gov. Bond owners should include as much information as possible about the lost bonds on the form. This information should include how the bonds were inscribed, social security number, approximate dates of issue, bond denominations and serial numbers if available. The completed form must be certified by a notary public or an officer of a financial institution. Completed forms should be forwarded to Public Debt's Savings Bond Operations Office located at 200 Third St., Parkersburg, West Virginia 26106-1328. Bond owners should write the word "Storms" on the front of their envelopes, to help expedite the processing of claims.

RR-2302

oOo

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

EMBARGOED UNTIL 2:30 P.M.
March 17, 1998

CONTACT: Office of Financing
202/219-3350

TREASURY'S WEEKLY BILL OFFERING

The Treasury will auction two series of Treasury bills totaling approximately $13,500 million, to be issued March 26, 1998. This offering will result in a paydown for the Treasury of about $1,325 million, as the maturing publicly held weekly bills are outstanding in the amount of $14,820 million.

In addition to the public holdings, Federal Reserve Banks for their own accounts hold $6,129 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 $3,213 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

RR-2303

Attachment

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

HIGHLIGHTS OF TREASURY OFFERINGS OF WEEKLY BILLS
TO BE ISSUED MARCH 26, 1998

March 17, 1998

Offering Amount	$6,250 million	$7,250 million
Description of Offering:		
Term and type of security	91-day bill	182-day bill
CUSIP number	912794 4W 1	912795 AK 7
Auction date	March 23, 1998	March 23, 1998
Issue date	March 26, 1998	March 26, 1998
Maturity date	June 25, 1998	September 24, 1998
Original issue date	June 26, 1997	March 26, 1998
Currently outstanding	$29,925 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 three decimals in increments of .005%, e.g., 7.100%, 7.105%.
(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 $1 billion or greater.
(3) Net long position must be determined as of one half-hour prior to the closing time for receipt of competitive tenders.

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

Maximum Award .... 35% of public offering

Receipt of Tenders:

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

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

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

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

EMBARGOED UNTIL 9:30 A.M. EST
Text as Prepared for Delivery
March 18, 1998

TREASURY DEPUTY ASSISTANT SECRETARY FOR INFORMATION SYSTEMS AND CHIEF INFORMATION OFFICER JAMES J. FLYZIK
HOUSE GOVERNMENT REFORM AND OVERSIGHT SUBCOMMITTEE ON GOVERNMENT MANAGEMENT, INFORMATION AND TECHNOLOGY

Chairman Horn, Representative Kucinich, and members of the Subcommittee, thank you for the opportunity to appear today to discuss the Department of the Treasury's progress on the Year 2000 computer problem. The Year 2000 computer problem is our highest priority information technology challenge. I am confident that Treasury has a strong program in place to address this challenge, and while there is much work ahead of us, we have made significant progress to date.

The Assistant Secretary for Management and Chief Financial Officer (CFO) has overall responsibility for the Year 2000 date transition. As Deputy Assistant Secretary (Information Systems) and Chief Information Officer (CIO), I am the overall program manager for the Year 2000 effort. The day-to-day responsibilities of the Year 2000 program reside within my office. In addition, Treasury has contracted with several firms with specialized skills in the Year 2000 problem to assist the Department in its oversight role. Attached to this statement are copies of the Year 2000 Program Organization at the Department of the Treasury.

Secretary of the Treasury Rubin is briefed periodically on the status of our Year 2000 program, and the Assistant Secretary for Management and CFO and myself meet weekly with bureau heads to review their Year 2000 progress. Working groups meet regularly for the Information Technology (IT), Non-IT, and Telecommunications components of our program. The Department requires each bureau and office to submit detailed monthly status reports. Additionally, the Secretary of the Treasury has mandated that each bureau and office head select an executive official to be in charge of their Year 2000 program. This individual, typically at the CIO or CFO level or higher, is responsible for ensuring
RR-2304

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

that the Year 2000 program at their bureau or office is completed in a timely manner.

I would now like to describe the overall status of Treasury's Year 2000 program, some successes we have experienced, and some remaining challenges we must address.

Treasury has now identified 321 mission critical IT systems and 272 mission critical Non-IT systems. At present, we have completed the assessments for 97.1% of Treasury's mission critical IT systems. We have renovated 125, or 51.4% of the mission critical IT systems that need to be converted. We can now report 119 out of 321 (37.1%) of the total mission critical IT systems are now Year 2000 compliant. Treasury's largest bureau, the Internal Revenue Service (IRS), has renovated 75 out of 126 (59.5%) mission critical IT systems, and validated 60 out of 126, or (47.6%).

I believe that, as a Department, we have made significantly more progress than has been indicated by the above figures. We are conservatively not reporting progress until entire systems have been renovated and tested. For example, the Customs Service, like the IRS, manages its renovation efforts by components. Customs has three mission critical systems, all of which require repair, which include 178 components. Although we report none of these three Customs mission critical IT systems as completed renovation, testing, or implementation, the fact is that 63.8% of the components within these systems have been renovated, 27.7% have been tested, and 19.24% have been implemented. Over 73% of the total Customs inventory of lines of code have been converted.

Treasury operates one of the largest enterprise telecommunications networks in the Government. In order to address Year 2000 challenges, a Year 2000 Telecommunications "Command Center" has been established to serve as a central location for telecommunications activities, including the Telecommunications Executive Body and Working Group meetings. Charts and graphs depicting current hardware and software status of each corporate telecommunications program, the independent verification and validation (IV&V) testing process, and overall progress tracking are displayed prominently for use by program managers and executives. Contractors supporting the telecommunications programs are co-located with the dedicated Year 2000 telecommunications program staff in the room to ensure ongoing, timely communications. To further promote communication among the CIO, Executive Body, program areas, working groups and bureaus, the Department has established a telecommunications site on the Treasury Year 2000 Intranet web site. Current information is published on the web site, including schedules, inventories and assessments, correspondence, and other relevant information.

Treasury has established a test laboratory for testing components of the system before implementing the changes in the operational environment. In addition, the Department has engaged a telecommunications company to perform independent verification and validation (IV&V) of the telecommunications infrastructure with respect to Year 2000 compliance.

Thus, for our mission critical systems, Treasury is on schedule to meet the implementation milestone date of December 1998 with the exception of the IRS phase 5 system applications and Financial Management Services Government On Line Accounting Link System (GOALS). The IRS systems will be completed by January 1999 in accordance with the IRS Year 2000 program plan, which calls for implementing renovated systems in 6 month phases, each January and July, through January 1999. This implementation strategy was created to accommodate tax processing season considerations. The Department is working closely with Financial Management Service to determine actions that can be taken to accelerate the GOALS schedule, as described in the Financial Management Services' testimony.

Since the kickoff of the Treasury Non-IT Working Group on August 28, 1997, Non-IT efforts have been continuing. The management planning and the definition of bureau and office specific Treasury Year 2000 Non-IT management plans began on October 16, 1997. These plans are based on the standard plan format, overall process, and content requirements as defined in the *"Treasury Year 2000 Non-IT Baseline Management Plan,"* dated October 16, 1997. This Treasury plan has been used as a model by the General Services Administration (GSA) for addressing Non-IT systems.

The Non-IT effort is supported by a central Non-IT database, on the Treasury Intranet Year 2000 site, which provides a tracking tool to determine the compliance status of vendor products.

As of March 6, 1998, Treasury bureaus and offices had identified 6,898 external data exchanges, of which 3,169 were incoming and 3,729 were outgoing. The Department has assessed 6,878 out of 6,898 (99.7%) of these external data exchanges, and found that 87.3% are Year 2000 compliant or have been granted a waiver. Of the 2,551 interfaces with the US private sector, Treasury bureaus and offices thus far have contacted 2,446 and reached agreements with 2,391. The bureaus and offices are working to meet the established milestone date of March 31, 1998, for reaching agreement with all state governments with which Treasury exchanges data.

At the Department level, coordination on Year 2000 data exchanges has been ongoing with other government agencies. Treasury has held a series of meetings with executives and staffs from the Department of Defense and the Department of Agriculture's National Finance Center to address and resolve data exchange issues and readiness for Year 2000 testing.

In early 1996, Treasury established September 1998 as a program milestone date for the completion of contingency plans. During a series of meetings with bureau and offices heads in June 1997, the Department emphasized the need for contingency planning and asked the bureaus and offices to accelerate their schedules for the development of these plans. Since then, Year 2000 Contingency Management Plans have been developed at several bureaus and offices for mission critical IT systems and components. Factors such as failure date, time to implement, dependencies, interfaces, resources, responsible office, impact, and criteria for invoking the plans are included. The bureaus' and offices' contingency planning efforts will be expanded to address Non-IT mission critical systems and telecommunications items.

In spite of our best efforts to date and our aggressive plans for the future, the Year 2000 problem is far from solved. Indeed, several significant key issues pose special challenges for us, and possibly for other Government agencies as well.

One issue that concerns us is vendor schedules for Year 2000 compliant versions of their commercial off-the-shelf hardware and software products. Some vendors have yet to release Year 2000 compliant upgrades of their products. While we are continuing to work on our renovation efforts, our testing cannot be completed until we have obtained and integrated the Year 2000 compliant versions of these products. This problem may become especially troublesome in the Non-IT area, where vendors have been, as a group, slower to recognize and respond to the challenges posed by the Year 2000 problem.

Treasury's cost estimates for fixing the Year 2000 computer problem have continued to rise. In our submission to OMB for the February 15, 1998, report, we estimated a total cost of $1.43 billion, with the bulk of that cost being incurred in this fiscal year. Our cost estimates were initially based in large part on a Year 2000 cost model that focused on costs associated with mainframe lines of code. In the period since those initial estimates were provided, Treasury bureaus and offices have made significant progress in their inventory and cost estimate efforts for repairing and testing IT items, telecommunications items, and Non-IT items. In the February 15, 1998, quarterly report, we estimated Non-IT program costs of $68.6 million, and $295 million for telecommunications costs.

In addition to funding challenges, we must also contend with the increasing rate of attrition within our information systems workforce. Skilled programmers -- especially those with skills in legacy system platforms -- are in strong demand within the private sector, which can pay significantly higher salaries than the Government. The loss of these critical resources represents a risk to the Year 2000 program.

Finally, while we are fortunate that many of our external interfaces are Year 2000 compliant, scheduling and testing all these interfaces are a challenge. Ultimately, we cannot test external interfaces unless our data exchange partners are ready to do so.

I believe that Treasury has an aggressive overall Year 2000 program in place, and we are on target to complete the conversion, testing, validation, and implementation of all mission critical systems in time to avoid disruption to any critical systems. Nothing less than 100% compliance will be acceptable to the American public, or to me personally.

I recognize that Chairman Horn's ratings suggest that Treasury has significantly greater problems with the Year 2000 problem than my testimony suggests. I do not underestimate the challenge of achieving significant compliance. However, we have purposefully taken a conservative approach at Treasury with respect to measuring our progress on the Year 2000 problem. We are requiring an end-to-end testing of all our systems before we will consider them to be 100% compliant.

Thank you for the opportunity to meet with you today to discuss the actions being taken by the Department of the Treasury in addressing the Year 2000 computer problem. I will be happy to answer any questions you may have regarding this important matter.

-30-

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

EMBARGOED UNTIL 9:30 A.M. EST
Text as Prepared for Delivery
March 18, 1998

TREASURY ASSISTANT INSPECTOR GENERAL FOR AUDIT DENNIS SCHINDEL HOUSE GOVERNMENT REFORM AND OVERSIGHT SUBCOMMITTEE ON GOVERNMENT MANAGEMENT, INFORMATION AND TECHNOLOGY

Mr. Chairman, Members of the Committee, I am pleased to appear before you today to discuss the Office of Inspector General's oversight of the Department of the Treasury's efforts to address the Year 2000 (Y2K) problem.

One thing is clear: this problem must be fixed, and failure is not an option. The two bureaus represented here today--the Internal Revenue Service (IRS) and the Financial Management Service (FMS)—provide services that are essential not only to government but to the public as well. Those who pay taxes and those who receive tax refunds and other government payments have a great deal at stake in the successful Y2K conversions of these two bureaus.

There is a great deal of focus on Y2K both in Treasury and throughout the Federal government. Plans are in place, a structured approach has been established that defines the various phases for a Y2K conversion, milestones have been set, and a progress reporting mechanism is in place.

Despite these accomplishments, two factors create a high risk that significant problems could occur to prevent a successful Y2K conversion. First, the sheer size and magnitude of the work to be done will make it difficult to manage. Second, the deadline cannot be extended; it is January 1, 2000—and, for some operations, sooner than that. With the amount of work left to be done and everyone competing for scarce information technology staff resources, this presents an enormous challenge. It will take many people working very hard and efficiently between now and the year 2000 to get the job done.

Having said that, let me briefly describe the OIG's oversight of Treasury's Y2K conversion effort. This year our Y2K audit work will be done in two phases. The first phase is nearing completion. As part of our financial statement audit work, we have been evaluating the

RR-2305

Department's compliance with the Y2K provisions of the Federal Financial Management Improvement Act (the Brown Bill). We have found that the Department is meeting OMB's quarterly reporting requirements and that the quarterly reports show the Department as a whole is meeting OMB's milestones.

While encouraging, these results must be qualified in two respects. First, our results are based primarily on the quarterly status reports provided to OMB. We have not yet performed extensive tests to verify the accuracy and completeness of this information. Second, the milestone dates that have been met thus far do not cover the real meat of the Y2K conversion process. They cover what GAO defines in their Year 2000 Assessment Guide as the awareness and assessment phases. The next three phases--renovation, validation and implementation--will be crucial in making a successful conversion.

Our phase 1 review identified two areas of concern that the Department is already working to address. The first is the need for a standard Year 2000 certification process. The second is the need for more complete and descriptive Year 2000 contingency plans to ensure continuity of Treasury's core business processes in the event of a Year 2000 induced system failure.

In our phase 2 audit, starting this month, we will substantially increase our audit effort. We will look behind the information in the quarterly status reports to verify the progress being reported to OMB. More importantly, we will examine the next two crucial phases in the Y2K conversion process--renovation and validation. Our audit work will focus on three main areas:

1. Management Oversight

We will evaluate both the Department's and each bureau's Y2K conversion oversight process. As part of this effort, we will assess how project status is validated, how conversion waivers are managed, and the completeness and accuracy of cost models.

2. Certification Process

We will determine if a certification process exists and is effective for ensuring that a system is Y2K compliant. We will examine data exchanges with external trading partners and the processing of data in an integrated environment. We intend to perform independent testing of certified systems with the help of an outside contractor.

3. Contingency Planning

We will determine if contingency plans exist and are reasonable and complete to effectively mitigate the risk of a Y2K failure. In addition, we will assess the adequacy of the Department's and bureaus' business impact prioritization of their mission critical systems.

We plan to report deficiencies as they are identified. Our goal is to alert the Department and bureaus to any significant vulnerabilities that they need to quickly address to reduce the risk of a Y2K failure. We plan to complete our phase 2 audit work in August and issue a consolidated report to the Department in September. Based on the results, we will determine the scope of additional audit work for the remainder of 1998 and into 1999.

We, as well as the Department and the bureaus, have a great deal of work ahead of us. One of our challenges will be to find a way within our existing resources to give adequate coverage to this area. We will have some help in this regard, especially at IRS.

The IRS Chief Inspector's Office has an extensive audit effort underway at IRS. They recently issued a final report on IRS' project planning and project management methodology and made several recommendations for improvement. They have nine additional audits that are either ongoing or planned, to cover various pieces of the IRS Y2K conversion effort.

Also, the Department's contractors are providing management support and Year 2000 assessments. We used these assessments in our phase 1 audit work and will leverage off of some of this work in phase 2.

Finally, we are aware that GAO will be conducting reviews of Y2K conversion efforts in Treasury. We are coordinating with both GAO and the IRS Chief Inspector to avoid duplication and leverage our resources. Among the three audit groups we hope to give audit coverage to most, if not all, of the critical Treasury operations.

This concludes my opening statement. I will be happy to answer any questions that you may have.

-30-

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. EST
Text as Prepared for Delivery
March 18, 1998

TREASURY SECRETARY ROBERT E. RUBIN
RELEASE OF IRS CUSTOMER SERVICE TASK FORCE REPORT
THE WHITE HOUSE, WASHINGTON, D.C.

It is a pleasure to join Vice-President Gore to speak with you today about the report of the IRS Customer Service Task Force. The leadership of the Vice President and the National Partnership for Reinventing Government have been critical to our ongoing efforts to create an IRS that is customer friendly and efficient, while collecting the taxes due.

Over the last three years, this Administration has been engaged in a highly intensive process of change and reform at the IRS to improve service for our customer: the American taxpayer. We have started to turn around technology, increase electronic filing, and improve telephone service. We have taken steps to enhance taxpayer rights by strengthening the position of taxpayer advocate, and establishing new Citizen Advocacy Panels to make it easier for taxpayers to get problems addressed quickly and effectively. Last month, we announced a set of initiatives to protect taxpayers whose spouses violate the tax laws without their knowledge. We have also worked to bring tax relief to middle class families by expanding the Earned Income Tax Credit and other measures.

However, despite this progress, the great bulk of our challenges lie ahead. Just as the problems at the IRS took a long time to develop, it is going to take a great deal of time and effort by all of us to build the kind of IRS that taxpayers deserve. There are no quick fixes or easy solutions, but dramatic change is an absolute necessity. This report -- the product of thousands of hours of work interviewing taxpayers, reviewing complaints, and consulting both outside experts and front-line employees -- is an important contribution to our reform efforts.

It is important to emphasize that, as we work to improve the IRS, we are committed to working in partnership with front line employees. Last November, I visited the Baltimore office on the first nationwide Problem Solving Day. My experience with those employees reinforced my

RR-2306

belief that the vast majority of IRS employees are dedicated public servants, committed to helping taxpayers comply with the law.

One of the most important steps we can take now is for Congress to pass the IRS reform bill, which the Administration and Congress worked together to fashion in the last weeks of 1997 after months of debate. We think the bill is a very good balance of many competing considerations and that it contributes significantly to the kind of IRS we all want to have. We hope that the Congress moves forward and passes this bill without further delay to help the IRS better serve the American taxpayer.

Let me make one final point. One of the things that has been lost in the debate around the IRS over the last few years is the critical function the IRS performs. The IRS collects 95 percent of the federal government's revenue -- revenue that funds essential activities of government that contribute enormously to the well-being of the American people, from the nation's defense, to social security, or college loans. And by enforcing the tax laws, they make the tax system fairer, because those who cheat on their taxes increase the burden on all the rest of us.

Now, I'd like to introduce the man who symbolizes our commitment to change at the IRS. One of the most important steps we have taken to improve the IRS was bringing Charles Rossotti on board, a new type of Commissioner who had long experience in private business and expertise with computer systems and who recently unveiled his plan for orienting the IRS more towards customer service.

-30-

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

EMBARGOED UNTIL 2:30 P.M.
March 18, 1998

CONTACT: Office of Financing
202/219-3350

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

The Treasury will auction $14,000 million of 2-year notes and $11,000 million of 5-year notes to refund $31,726 million of publicly held securities maturing March 31, 1998, and to pay down about $6,725 million.

In addition to the public holdings, Federal Reserve Banks hold $3,143 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 $5,531 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.

The 2-year and 5-year notes being offered today are eligible for the STRIPS program.

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

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

oOo

Attachment

RR-2307

HIGHLIGHTS OF TREASURY OFFERINGS TO THE PUBLIC OF
2-YEAR AND 5-YEAR NOTES TO BE ISSUED MARCH 31, 1998

March 18, 1998

Offering Amount	$14,000 million	$11,000 million
Description of Offering:		
Term and type of security	2-year notes	5-year notes
Series	AB-2000	E-2003
CUSIP number	912827 4A 7	912827 4B 5
Auction date	March 24, 1998	March 25, 1998
Issue date	March 31, 1998	March 31, 1998
Dated date	March 31, 1998	March 31, 1998
Maturity date	March 31, 2000	March 31, 2003
Interest rate	Determined based on the highest accepted competitive bid	Determined based on the highest accepted competitive bid
Yield	Determined at auction	Determined at auction
Interest payment dates	September 30 and March 31	September 30 and March 31
Minimum bid amount	$5,000	$1,000
Multiples	$1,000	$1,000
Accrued interest payable by investor	None	None
Premium or discount	Determined at auction	Determined at auction
STRIPS Information:		
Minimum amount required	Determined at auction	Determined at auction
Corpus CUSIP number	912820 CT 2	912820 CU 9
Due date(s) and CUSIP number(s) for additional TINT(s)	Not Applicable	March 31, 2003 — 912833 RU 6

The following rules apply to all securities mentioned above:

Submission of Bids:

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

Competitive bids .... (1) Must be expressed as a yield with three decimals, e.g., 7.123%.
(2) Net long position for each bidder must be reported when the sum of the total bid amount, at all yields, and the net long position is $2 billion or greater.
(3) Net long position must be determined as of one half-hour prior to the closing time for receipt of competitive tenders.

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

Maximum Award .... 35% of public offering

Receipt of Tenders:

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

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

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

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
March 19, 1998

Contact: Office of Financing
(202) 219-3350

TREASURY'S INFLATION-INDEXED SECURITIES
APRIL REFERENCE CPI NUMBERS AND DAILY INDEX RATIOS

Public Debt announced today the reference Consumer Price Index (CPI) numbers and the daily index ratios for the month of April for the following Treasury inflation-indexed securities: (1) the 10-year 3-3/8% notes due January 15, 2007, (2) the 5-year 3-5/8% notes due July 15, 2002, and (3) the 10-year 3-5/8% notes due January 15, 2008. 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 CPI's (Ref CPI) and index ratios, this release provides the non-seasonally adjusted CPI-U for the prior three-month period.

This information is available through the Treasury's Office of Public Affairs automated fax system by calling 202-622-2040 and requesting document number 2308. The information is also available on the Internet at Public Debt's web site (http://www.publicdebt.treas.gov).

The information for May is expected to be released on April 14, 1998.

o0o

Attachments

RR-2308

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:	April 1998
NUMBER OF DAYS IN MONTH:	30

CPI-U (NSA) December 1997	161.3
CPI-U (NSA) January 1998	161.6
CPI-U (NSA) February 1998	161.9

Ref CPI and Index Ratios for April 1998:

Month	Calendar Day	Year	Ref CPI	Index Ratio
April	1	1998	161.60000	1.01997
April	2	1998	161.61000	1.02004
April	3	1998	161.62000	1.02010
April	4	1998	161.63000	1.02016
April	5	1998	161.64000	1.02023
April	6	1998	161.65000	1.02029
April	7	1998	161.66000	1.02035
April	8	1998	161.67000	1.02042
April	9	1998	161.68000	1.02048
April	10	1998	161.69000	1.02054
April	11	1998	161.70000	1.02060
April	12	1998	161.71000	1.02067
April	13	1998	161.72000	1.02073
April	14	1998	161.73000	1.02079
April	15	1998	161.74000	1.02086
April	16	1998	161.75000	1.02092
April	17	1998	161.76000	1.02098
April	18	1998	161.77000	1.02105
April	19	1998	161.78000	1.02111
April	20	1998	161.79000	1.02117
April	21	1998	161.80000	1.02124
April	22	1998	161.81000	1.02130
April	23	1998	161.82000	1.02136
April	24	1998	161.83000	1.02143
April	25	1998	161.84000	1.02149
April	26	1998	161.85000	1.02155
April	27	1998	161.86000	1.02161
April	28	1998	161.87000	1.02168
April	29	1998	161.88000	1.02174
April	30	1998	161.89000	1.02180

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

TREASURY 5-YEAR INFLATION-INDEXED NOTES

SERIES:	J-2002
CUSIP:	9128273A8
DATED DATE:	July 15, 1997
ORIGINAL ISSUE DATE:	July 15, 1997
ADDITIONAL ISSUE DATE:	October 15, 1997
MATURITY DATE:	July 15, 2002
Ref CPI on DATED DATE:	160.15484
TABLE FOR MONTH OF:	April 1998
NUMBER OF DAYS IN MONTH:	30
CPI-U (NSA) December 1997	161.3
CPI-U (NSA) January 1998	161.6
CPI-U (NSA) February 1998	161.9

Ref CPI and Index Ratios for April 1998:

Month	Calendar Day	Year	Ref CPI	Index Ratio
April	1	1998	161.60000	1.00902
April	2	1998	161.61000	1.00909
April	3	1998	161.62000	1.00915
April	4	1998	161.63000	1.00921
April	5	1998	161.64000	1.00927
April	6	1998	161.65000	1.00934
April	7	1998	161.66000	1.00940
April	8	1998	161.67000	1.00946
April	9	1998	161.68000	1.00952
April	10	1998	161.69000	1.00959
April	11	1998	161.70000	1.00965
April	12	1998	161.71000	1.00971
April	13	1998	161.72000	1.00977
April	14	1998	161.73000	1.00984
April	15	1998	161.74000	1.00990
April	16	1998	161.75000	1.00996
April	17	1998	161.76000	1.01002
April	18	1998	161.77000	1.01008
April	19	1998	161.78000	1.01015
April	20	1998	161.79000	1.01021
April	21	1998	161.80000	1.01027
April	22	1998	161.81000	1.01033
April	23	1998	161.82000	1.01040
April	24	1998	161.83000	1.01046
April	25	1998	161.84000	1.01052
April	26	1998	161.85000	1.01058
April	27	1998	161.86000	1.01065
April	28	1998	161.87000	1.01071
April	29	1998	161.88000	1.01077
April	30	1998	161.89000	1.01083

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

TREASURY 10-YEAR INFLATION-INDEXED NOTES

SERIES:	A-2008
CUSIP:	9128273T7
DATED DATE:	January 15, 1998
ORIGINAL ISSUE DATE:	January 15, 1998
MATURITY DATE:	January 15, 2008
Ref CPI on DATED DATE:	161.55484
TABLE FOR MONTH OF:	April 1998
NUMBER OF DAYS IN MONTH:	30

CPI-U (NSA) December 1997	161.3
CPI-U (NSA) January 1998	161.6
CPI-U (NSA) February 1998	161.9

Ref CPI and Index Ratios for April 1998:

Month	Calendar Day	Year	Ref CPI	Index Ratio
April	1	1998	161.60000	1.00028
April	2	1998	161.61000	1.00034
April	3	1998	161.62000	1.00040
April	4	1998	161.63000	1.00047
April	5	1998	161.64000	1.00053
April	6	1998	161.65000	1.00059
April	7	1998	161.66000	1.00065
April	8	1998	161.67000	1.00071
April	9	1998	161.68000	1.00077
April	10	1998	161.69000	1.00084
April	11	1998	161.70000	1.00090
April	12	1998	161.71000	1.00096
April	13	1998	161.72000	1.00102
April	14	1998	161.73000	1.00108
April	15	1998	161.74000	1.00115
April	16	1998	161.75000	1.00121
April	17	1998	161.76000	1.00127
April	18	1998	161.77000	1.00133
April	19	1998	161.78000	1.00139
April	20	1998	161.79000	1.00146
April	21	1998	161.80000	1.00152
April	22	1998	161.81000	1.00158
April	23	1998	161.82000	1.00164
April	24	1998	161.83000	1.00170
April	25	1998	161.84000	1.00177
April	26	1998	161.85000	1.00183
April	27	1998	161.86000	1.00189
April	28	1998	161.87000	1.00195
April	29	1998	161.88000	1.00201
April	30	1998	161.89000	1.00207

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

"Opportunities Out of Crises: Lessons From Asia"
Remarks by Lawrence H. Summers
Deputy Secretary of the Treasury
Overseas Development Council
Washington, DC
March 19, 1998

Thank you. I am delighted to have this opportunity to discuss recent events in Asia with such a broad and distinguished array of thinkers on these issues.

I would like to spend my time today discussing the short and longer term causes of the recent crises in Asia; the opportunity they present for putting Asia's growth on a more sustainable footing; and some of the implications for the International Financial Institutions.

I. Systemic Roots of the Crisis

In the wake of these crises there has been a great deal of discussion about the "Asian model". To the extent that there exists such a model -- given the enormous differences between the economies of the region -- it lies in a number of common features in their economic and financial approach, an approach that in many ways tracks the postwar development of Japan.

This was built on the fundamentals -- on high savings, high levels of education and hard work. But it was also an approach that favored centralized coordination of activity over decentralized market incentives. Governments targeted particular industries, promoted selected exports, and protected domestic industry. There was a reliance on debt rather than equity, relationship-driven finance not capital markets, and informal rather than formal enforcement mechanisms.

This model has had important and profound successes. And the performance of Asia has truly been spectacular. But it has been a difficult and ongoing question of interpretation quite how much of that spectacular growth was due to strong universal fundamentals, such as high savings and high levels of education, and how much due to practices uniquely Asian. What we can say is that even before the onset of the recent financial problems a reassessment was under way, not merely within American universities but within Asia:

- Japan's disappointing economic performance had led to plans for a "Big Bang" liberalization of the financial sector and repeated calls for sweeping deregulation;

- prominent Korean observer Kim Dae Jung -- now, of course, the president -- had

RR-2309

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

published books calling for wholesale reform of the economic system: for an end to government-directed lending to industry, for non-inflationary macroeconomic policies, for reforming the *chaebol*, and for opening up the financial system.

- respected academic studies of Asia's growth record -- pioneered by Alwyn Young -- began to suggest that the miraculous growth of Asia might owe rather little to sustained growth in productivity and a great deal more to rapid accumulation of capital.

These longer term issues were conflated, in recent years, with a set of shorter term problems of macroeconomic management: the maintenance of mutually inconsistent monetary policy and exchange rate regimes; excess inflows of private capital channeled into unproductive investments; substantially reduced competitiveness; significant failures of debt management that led to unsustainable quantities of short-term debt. All of these elements -- short- and long-term -- came together to produce these crises, and were then reinforced by lack of market confidence so as to set up a situation with many of the features of a bank run.

This, then, is a distinct kind of crisis. It has a common element with almost all financial crises: money borrowed in excess and used badly. But it is also profoundly different because it does not have its roots in government improvidence. Relative to nearly all of the crises we have seen in recent years, the problems that must be fixed are much more microeconomic than macroeconomic, and involve the private sector more and the public sector less.

Another way to put this would be that the reforms are less about changing the short-term policy mix than they are about changing the long-term institutional environment. Short-term adjustments in policy can and have been needed to revive confidence and correct imbalances. But the overriding focus has been on addressing the same long-term challenge at the root of those earlier reassessments: the challenge of building a new system of governance better attuned to the demands of an integrated modern market economy.

II. The Approach to Reform

We can see the core elements of such a response in the reform programs the International Monetary Fund, along with the World Bank and the Asian Development Bank, have supported in Asia. The goal in each area of policy is both to tackle the short-term problem of confidence and to clear the way for a new growth path built on private investment and individual opportunity.

Macroeconomic reforms have involved, not merely short-term adjustments to restore confidence and growth, but long-term reforms to make the framework for macroeconomic policy more transparent and accountable. Each of the programs commits the government to regular publication of foreign reserve and other data and greater public scrutiny of policy decisions -- both so as to build consensus and to reduce the scope for unpleasant surprises.

Financial sector reforms have envisaged, not merely restructuring of the financial system, but laying the ground for a new one. While attention has focused on the closure or merger of insolvent financial institutions, at least as important to the long-term resolution of these crises will be the commitment to build a new supervisory and regulatory infrastructure and foster modern credit evaluation and risk management techniques within private financial institutions themselves.

Corporate sector reforms have all involved a recognition that there need to be bankruptcy regimes in place, and system-wide improvements in accounting standards and corporate disclosure to facilitate the move to a more arms-length, market-driven investment culture. If one were writing a history of the US capital market, one of the most important innovations one would say had shaped that market would be the idea of generally accepted accounting principles. It is a minor, but not insignificant, triumph of the IMF program that when I and other members of the Administration were in Korea earlier this year, a teacher of night school courses in accounting told us he normally has 22 students in his winter term. This year he has 385.

Reforms of the role of government have sought, not merely an end to those public interventions directly contributing to the crisis, but fundamental change in what government is expected to do. The emphasis is on reducing direct public involvement in the productive sector -- as, for example, in the Korean pledge to eliminate non-economic lending to industry. And it has been on opening the economy to foreign participation and competition with sweeping trade and financial sector liberalization, both to improve the efficiency of the economy and to let long-term capital in.

But this is only one part of the story. The emphasis of these programs has been at least as much on improving the quality of government intervention -- to make it more transparent, less open to corruption, and more focused on the things that sustainable market-led growth depends on, but markets alone cannot provide. Most notably, all of the most recent reform programs include measures to improve the quality of the social safety net, and to maintain and improve government spending on education, health and other basic services.

It is arguable that reform would not be politically sustainable in these situations without an assurance that the pain of adjustment will not fall only on the poor. What we know for sure is that they would not be economically sustainable, in the long run, without these kinds of reforms. Years of research into the business of "picking winners" in development has given a clear verdict: when it comes to the long-term economic return, public investments in health and education and an effective social insurance system win out every time.

Decisively implemented, these changes will help address Asia's shorter and longer term imperatives: they will increase confidence and attract private capital in the short run. And they address the longer term problem of allocating capital on a more market-oriented basis. They are also important for the International Community, because an Asia that addresses these problems will be a stronger, more balanced contributor to global growth and trade. And, we should remember, they will offer the prospect of resuming sustained growth in living standards and opportunities in a region where two-thirds of the world's population live.

III The Role of the International Financial Institutions

This many-sided response is a response to the particular challenges facing Asian economies in these crises -- and in each case, to the specific circumstances of each country. But it is not an Asian response. Nor is it an Anglo-Saxon response. It is, rather, an effective response, grounded in the now very broad consensus in favor of economics based on markets -- and market-supporting institutions.

For all the debates we have seen recently about the proper role of the IFIs, they have focused to a very large extent on the means and modes of official assistance. The end goal, of laying the foundations for market-led growth, is no longer in question. What has been a matter of continuing debate and pressure on the part of the United States has been the desire to ensure this objective is being met as effectively as possible.

Let me just highlight three areas where we have pressed for change in areas that have been brought out with particular salience in the Asian case:

1. Laying the foundation for stable finance

We have pressed to ensure that the IMF would never again stand for "It's Mostly Fiscal", by working to adapt the IMF's policies and practices to meet the needs of a more integrated and market-driven global economy. For example:

- through the US-initiated creation of the new Emergency Financing Mechanism, to provide for more rapid agreement to extraordinary financing requests in return for more intense regular scrutiny.

- by successful urging the IMF to take the lead in international efforts to promote greater disclosure of economic and financial data and improved banking supervision in emerging markets. More than 40 countries have already subscribed to the IMF's Special Data Dissemination Standard created in April 1996. And the IMF was closely involved in the development, by the Basel Committee, of Core Principles For Banking Supervision and Regulation that were formally approved by the G7 countries last year.

- and most recently, through the US-inspired Supplementary Reserve Financing facility to let the IMF lend at premium rates in short-term liquidity crises and improve borrower incentives -- a mechanism that grew out of recent developments in Asia and has played a major role in the IMF's assistance to the region.

Let me applaud the commitments that Jim Wolfensohn has made since becoming President of the World Bank to upgrade the organization's involvement and expertise in the area of financial sector reform -- if there is one area where I welcome a competition among the IFIs it is here. And indeed, a large, in many cases the major portion of new ADB and World Bank lending to Korea and Thailand in response to the crises has been focused on this sector.

2. Greater Emphasis on Good Governance

The Asian crises have brought out even more clearly what Jim Wolfensohn and Michel Camdessus had already recognized: that good governance is a core institutional underpinning for growth. With strong United States urging and support, both institutions have rightly been moving toward making reduced corruption as central to their assessment of countries as more traditional, narrowly economic concerns such as tariff reform and tax administration.

Putting the fight against corruption at the heart of development programs is an economic as well as an ethical imperative. Corruption results in distorted allocation of resources. And new laws and supervisory systems will do little to safeguard stability if there is no credible -- and honest -- authority to enforce them. As we are learning, any country's capacity to take on major reform challenges such as those faced in Asia will depend critically on the credibility of its policy makers and public institutions -- credibility that corruption fatally undermines.

It is my hope and expectation that there will be a great deal of further attention given to this issue in the months ahead. But as you know, promoting good governance does not only, or even mainly, involve "anti-corruption" measures. Greater transparency and accountability of public institutions, the elimination of cartels, subsidies, trade restriction and other distortions -- all of these will have a direct effect on the scope for cronyism and corrupt practices, and a direct, and positive long-term effect on growth. The proposal for an IMF code of fiscal transparency provides just one example of ways that the IMF could press governments to move further in this area in the future.

3. Greater Emphasis on the Social Implications of Reform
A concern with the quality of public spending -- as well as the absolute quantity -- has been a long-running object of United States pressure on both the IMF and the World Bank. We have pressed the IMF to pay closer attention to the needs of the poor in designing adjustment programs, to encourage cuts in unproductive expenditures such as military spending and shifting of more resources to primary education, health care and essential public investments. Since 1990 military spending has declined from 5.5 percent to 2.2 percent of GDP in program countries, and has declined as a share of government spending while social spending has increased.

All of the recent programs have been designed to ensure that the necessary adjustments do not come at the expense of the poor:

- in the Indonesian and Thai programs, spending on health, education and social programs have been expressly protected from any fiscal consolidation, and where possible, efforts to target spending on the poorest in society have been intensified. In Korea, the program commits the government to strengthening the labor insurance system, and the promotion of active labor market policies to lessen the shock to employment due to the crisis;

- in designing programs to supplement the IMF program, both the World Bank and the Asian Development Bank have been acutely aware of the need to focus on the impact of policy on the most vulnerable, both in the new lending provided to these countries and through the restructuring of existing lending programs to promote urban and rural employment and basic health services. Planned new World Bank lending to Thailand and Indonesia, for example, foresees upwards of $600 million in new loans for improving the social safety net in each of these countries.

There is a broader point that needs to be made in these discussions. We do not emphasize financial stability for its own sake. Stabilizing capital flows is a means to a more ultimate objective: of increasing living standards and economic opportunities for all of the world's population. Yet in working to promote free flows of capital we will not and cannot allow ourselves to get caught in a race to the bottom -- a bottom in which governments cannot promote fair taxes, uphold fair labor standards or protect the environment.

That is not the world we want to build. It is not the world we are building. That is why we are working with other countries to promote global cooperation against corporate and legal tax havens. That is why we are working actively in the OECD on the issue of tax competition. It is why we have worked, within the IMF and the other IFIs to ensure that the concerns of labor and the environment get a fair hearing in devising reform programs and sustainable development strategies. And it is why fair labor and environmental standards have played a core role in our bilateral and multilateral trade liberalization initiatives.

IV The Immediate Need to Support the IMF

The crises have brought home the absolute indispensability of the IMF as the core provider of emergency, conditioned international support to countries in financial difficulty. Long experience has taught that countries cannot be helped by the IMF -- or, indeed, any of the multilateral institutions -- if they are not willing to help themselves. But without the IMF, even those countries that are committed to reform might face default -- either at a government level or through the failure of the financial system as a whole -- which could have devastating effects on their own economies and significantly raise the risks of contagion in other markets.

It has rightly been said, in this context, that if the IMF did not exist we would have to invent it. But of course, we do not need to imagine such a possibility, we can simply look at the history of the late 1920s and early 1930s, when there was no collective response, and no United States leadership to address serious financial problems, and lenders and creditors were left to sort things out by themselves. The result was a vicious cycle of devaluations, deflation and depression, which laid the ground for the greatest conflict the world has ever seen.

For all the controversy surrounding the IMF in recent months, it is striking that relatively few of the critics -- more than one perhaps, but it is fair to say relatively few -- have consistently suggested that there should be no IMF to respond to these situations. The call, rather, has been for a different IMF.

We agree on the need for change at the IMF. Indeed, we have done much to change it and point it in new directions these past few years. And we will be keeping up the pressure for change because there is -- there will always be -- room for improvement at the IMF, and every one of the IFIs, if they are to be up to the challenges of a fast-changing global economy. But -- leaving aside, for a moment, the merits of the particular reforms being called for -- there is a curious recklessness in the proposition that to make the IMF do its job better we should jeopardize its ability to do it at all.

Without new resources, the Fund's capacity to respond to future outbreaks of Asian flu -- or other crises that may arise down the road -- is very much in doubt. We must and will continue to equip the IMF -- equip all of the IFIs -- to meet the demands of a demanding new world. But we must not, and will not, do this in a way that undermines the very international financial stability we are seeking to promote -- and in which our economy has such an enormous stake. Thank you.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

EMBARGOED UNTIL 1:45PM EST
Remarks as Prepared for Delivery
March 19, 1998

Secretary Robert E. Rubin
National Community Reinvestment Coalition Annual Conference

It is a pleasure to speak with you today. Let me begin by thanking John Taylor and Gene Ortega of the NCRC for inviting me to speak today, and more importantly, for their continued leadership on an issue that I believe is of immense importance to our society and our economy as we approach the 21st century: giving *every* American the opportunity to join and succeed in the economic mainstream.

To be sure, this is a social and moral issue, but it is also an economic issue. I have long held the belief that this country will fall far short of its full economic potential for all Americans, unless we make the opportunity our country offers a reality for all of our people. And that is important to each of us, no matter what our income may be or where we may live. Just think of the difference it will make in terms of reduced social costs and increased productivity if we succeed in fostering growth and prosperity in our country's economically distressed communities.

Pursuing the goal of an economy that works for all of us has been a high priority for President Clinton. Today, I'd like to discuss what the Clinton Administration, and more specifically, the Treasury Department is doing to revitalize economically distressed communities.

First, let's start with the economy, because the prerequisite for addressing issues of real economic opportunity for all is a strong national economy, which creates jobs and raises standards of living.

When President Clinton came to office, unemployment was 7.3 percent, budget deficits kept interest rates high and confidence low, and job creation was slow.
RR-2310

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

Today, after putting our fiscal house in order, which has been central to bringing interest rates down and increasing confidence, unemployment is 4.6 percent and has been under 6 percent for the last three years. The economy has generated 15 million new jobs over the last five years, inflation has remained low and real median wages are beginning to rise, although there is still much to be done to advance the poorest segments of our economy,

There are also some hopeful signs of renewal in America's cities, areas too often fraught with poverty and economic duress. Unemployment in the fifty largest cities is down to 6.5 percent from 9 percent in 1992. And crime is down substantially.

Having said all that, too many Americans are still not participating, or are not participating fully, in the economic well-being that most are enjoying. Just last week, for example, Second Harvest -- a network of food banks -- reported that more than 21 million people used emergency food programs in 1997, and nearly 40 percent of those seeking aid came from working households.

However, these problems are not insoluble and with sufficient will we can bring residents of the inner cities and other distressed areas into the economic mainstream. The key is to identify strategies and replicate them in sufficient scale on a sustained basis around the country. Our strategy involves a three pronged approach:

The first is strengthening public safety. In addition to the human costs, high crime rates are a significant barrier to economic activity. The President has made this a high priority through the Brady Bill, the assault weapons ban, both of which Treasury is deeply involved in, and his program to put 100,000 police on the streets.

Second, is investing in people, through education and training, from pre-school to adults, through improving the "job readiness" of the least advantaged and connecting them to the workforce. At Treasury we are deeply involved in these issues in the development and advocacy of the President's budget.

Third is increasing access to private sector capital, and other measures to create economic activity in the inner cities. 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 financial institutions and of credit to create housing and jobs in the inner city and in rural communities. At Treasury, we have been involved in bringing our broad expertise on capital markets to bear on these problems of capital access.

We have taken strong action to increase capital availability in economically distressed neighborhoods and help restore healthy market activity. We made permanent the low income housing tax credit, and we are now calling on Congress in the current budget to expand it by 40 percent -- over $1.5 billion -- over the next five years. We have introduced a new tax incentive to clean up abandoned industrial properties in economically distressed areas -- so called brownfields -- and we created new Empowerment Zones.

I think one of the most significant things we've done is help make our financial system work better for communities long left behind. We have strengthened the Community Reinvestment Act, fought for its survival, and launched the Community Development Financial Institutions Fund. Let me focus on these two items for a moment.

When President Clinton came into office in 1993, he was determined to strengthen CRA regulations to encourage mainstream financial institutions to lend to creditworthy borrowers throughout their community. The regulators have done just that, focusing CRA on performance, not paperwork. And as you well know, Gene Ludwig, our Comptroller of the Currency, provided very strong leadership on this issue. And since taking office we have repeatedly fought efforts to undermine CRA. Now in its 20th year, CRA has had a greatly increased impact over the last few years.

The NCRC report being released today shows the depth of the changes I am talking about. It reports that there have now been $397 billion in loan pledges to low income areas since CRA was enacted 20 years ago. Under this Administration over the past five years, loan pledges have totaled $355 billion, 89.3 percent of all loan pledges made since 1977. Now, that's pledges, and not loans yet made, so we need to be sure those pledges become reality. Having said that, progress has been impressive and congratulations to you for your work in helping to make this possible.

Over the last five years, in part because of these changes, private sector lending in distressed areas has increased enormously. In 1996 alone, large commercial banks made $18 billion in community development loans -- funds used to produce affordable housing, finance small business, and develop retail and commercial revitalization projects. In the last four years, national banks have invested four times as much in community development as they did in the previous thirty years.

Moreover, Home Mortgage Disclosure Act data for 1996 showed that since 1993, private sector conventional home mortgage lending to African Americans has increased by 67.2 percent, lending to Hispanics has risen 48.5 percent, and lending in low and moderate income areas is up 37.9 percent. All this, in a period in which the entire market grew only 18 percent. This data shows real progress, but much work still needs to be done.

To cite just one example, since 1990, Bank of America in San Francisco has profitably lent more than $10 billion as part of its Neighborhood Advantage program, a system of low and moderate income home loans, to borrowers in communities across the western United States. And Bank of America is hardly alone. With the prompting provided by the CRA and the Home Mortgage Disclosure Act, mainstream banks across the country have developed -- and made money from -- similar initiatives to serve low income markets.

As we work to modernize our financial system, we need to make sure modernization works for communities. By requiring financial services to be provided only through bank holding company affiliates, the current financial modernization bill would cause a large transfer of financial resources outside of the reach of the CRA.

Let me turn now to the CDFI Fund, another important focus for us at Treasury, and, in many respects, a complement to CRA. As many of you know, John Taylor has provided valuable assistance to us by serving on CDFI's Advisory Board. The goal of the CDFI Fund is to build a nationwide network of community development financial institutions to expand access to credit and financial services in lower income urban, rural and Native American communities. Often, CDFIs are the pioneers in their marketplaces, making the leading edge investments based on superior local knowledge, and thereby demonstrating to traditional lenders that these are viable markets. Banks, in turn, are looking for these opportunities, partly as a result of CRA. Once they become involved, many of these mainstream institutions are staying at the table as they come to understand these markets and see the available opportunities.

The CDFI Fund has two main programs: the CDFI program, which is designed to assist specialized community development financial institutions, and the Bank Enterprise Award program, which rewards financial institutions that are increasing their lending and providing more financial services in distressed communities. Both programs pursue strategies designed to meet local needs to help each community deal with its particular circumstances, whether it is helping people buy a house, or start a business. They help foster partnerships between mainstream financial institutions and local communities.

As with any new organization there have been some growing pains at CDFI. I believe we have dealt with the problems at the CDFI Fund effectively and we will continue to improve procedures as this program grows and matures. In fact, the Fund was recently given an unqualified audit for its activities since inception. We are moving this program forward with the new leadership of Ellen Lazar, who I believe brings to the job the dedication, experience and energy needed to implement the CDFI Fund's important work in the years ahead. Most importantly, we have a vision that makes sense, a program that is up and running, and money that has begun to flow to communities and make a difference in people's lives.

Now we must build on these successes. We are asking Congress for $125 million for CDFI. And we are working with Congress on the re-authorization that is required for this most useful program to continue. Our legislation will make improvements to the CDFI and BEA programs, and we're going to seek to launch a new capital access program at CDFI, working with the states to fund loan loss reserves that enable banks and CDFIs to make more difficult small business loans to budding entrepreneurs. I think this is an exciting new initiative for communities. We will be pushing forward with both appropriations for CDFI in the Veterans Affairs/HUD Subcommittees and reauthorization through the banking committees in the weeks ahead. We look forward to working with Congress to pass these bills on a bipartisan basis.

In conclusion, let me mention a conversation I had when I was still at the National Economic Council with a reporter from a well respected European weekly who was interviewing me. At the end of the interview, which was about the state of the U.S. and the global economy, he said that the US economy was doing very well but that ten or twenty years from now we'd be a second tier economy. I asked why he thought that, and he said the answer was our public schools and our inner cities. My own view, now that I've spent five years focusing on our economy and economies around the world, is that we have tremendous strengths and a great potential in a global economy, but we can and must deal more effectively with the critical issues that reporter identified if we are to fully realize that potential.

And that is why the Clinton Administration is pursuing the strategy I discussed today to foster growth in economically distressed areas. It is a strategy geared towards helping people today, and preparing our country for the future. It is a strategy grounded in a new, more market-driven approach. And it is one that, in many respects, represents the forefront of a quiet revolution in the approach taken to create jobs and promote growth. By working together -- government, business, community groups, and non-profit organizations -- we can make progress on these economic problems, which, as I said at the beginning, affect all of us. Thank you very much.

--30--

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

EMBARGOED UNTIL 2:30 P.M.
March 20, 1998

CONTACT: Office of Financing
202/219-3350

TREASURY'S 52-WEEK BILL OFFERING

The Treasury will auction approximately $11,000 million of 52-week Treasury bills to refund $13,578 million of publicly held 52-week bills maturing April 2, 1998. This offering will result in a paydown for the Treasury of about $2,575 million. In addition to the maturing 52-week bills, there are $14,911 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 $12,722 million of the maturing bills. These accounts are considered to hold $5,495 million of the maturing 52-week issue, which may be refunded at the weighted average discount rate of accepted competitive tenders. Amounts issued to these accounts will be in addition to the offering amount.

Federal Reserve Banks hold $4,934 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 $1,237 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.

oOo

RR-2311

Attachment

HIGHLIGHTS OF TREASURY OFFERING OF 52-WEEK BILLS TO BE ISSUED APRIL 2, 1998

March 20, 1998

Offering Amount	$11,000 million
Description of Offering:	
Term and type of security	364-day bill
CUSIP number	912795 BV 2
Auction date	March 26, 1998
Issue date	April 2, 1998
Maturity date	April 1, 1999
Original issue date	April 2, 1998
Maturing amount	$19,073 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 three decimals, in increments of .005%, e.g., 7.100%, 7.105%.
	(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 $1 billion or greater.
	(3) Net long position must be determined as of one half-hour prior to the closing time for receipt of competitive tenders.
Maximum Recognized Bid at a Single Yield	35% of public offering
Maximum Award	35% of public offering
Receipt of Tenders:	
Noncompetitive tenders	Prior to 12:00 noon Eastern Standard time on auction day
Competitive tenders	Prior to 1:00 p.m. Eastern Standard time on auction day
Payment Terms	Full payment with tender or by charge to a funds account at a Federal Reserve Bank on issue date

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

EMBARGOED UNTIL 8:00 AM
Text as Prepared for Delivery

"The Winds of Change Blowing Through the IRS"
Remarks by Lawrence H. Summers
Deputy Secretary of the Treasury
Tax Executives Institute
March 23, 1998

Thank you. It is a pleasure to be among tax professionals to discuss the tremendous changes under way at our nation's tax collection service and the best ways to continue that transformation.

These past couple of years have been a period of tremendous ferment -- inside the IRS, and *about* the IRS. Continuing improvements in the service provided by banks, brokers, credit card companies and other users of information technology have brought ever more sharply into focus the IRS' problems with customer service. Treasury, the IRS, the National Treasury Employees Union, many interested members of Congress -- we have all recognized that the IRS needed to do much better at providing the kind of cost-effective, high-quality service that American taxpayers have come to expect from the private sector and that our nation deserves.

The problems at the IRS have developed over many decades -- they will not be solved overnight, or even over a couple of filing seasons. But with the work of the National Commission on Restructuring the IRS, led by Senator Bob Kerrey and Congressman Rob Portman, with input from valuable hearings on Capitol Hill and the work of many others inside and outside the Administration, a clear consensus has emerged among a wide group of stakeholders on the need for change. With the executive actions we have taken and will take, and the legislative progress that has been made, those changes are now firmly on the way to being achieved. The IRS has started to change and the public is starting to feel the benefits of that change.

Today I would like to review what we have done; what the results have been so far; and outline where we go from here, emphasizing the importance of passing the IRS reform legislation presently before Congress.

I. Changes at the IRS

When I spoke here a year ago I had the opportunity to lay out Treasury's five point plan for changing the IRS. Our goals were: to strengthen leadership; to increase managerial flexibility; to enhance oversight; to improve IRS budgeting; and to work for a simpler, fairer tax code. We have made real progress in all of these areas. But more progress depends on passing the IRS reform legislation that has already passed the House last fall and that we hope soon to see enacted.

RR-2312

New leadership

Last year I emphasized the need for a different type of commissioner, whose experience emphasized management, emphasized customer service, emphasized the critical importance of technology. We believed that major change at the IRS had to come from the top. At that time we did not know who that commissioner would be. Fortunately after an extensive search we were successful in finding and appointing Charles Rossotti.

Charles will be speaking later today, and I know all of you will be as impressed by his bold new approach to the IRS as we at Treasury -- and so many in the IRS and in Congress -- have been. He is a former Chief Executive Officer of a large, highly successful private sector company, someone with a long record of building effective organizations -- effective organizations that succeed because they meet their customers' needs.

An important aspect of leadership is continuity. The IRS reform bill passed in the House last fall and presently being debated in the Senate calls for the five year term for the new Commissioner that we proposed last year. This will enable longer term planning and greater independence and provide for much greater continuity from Administration to Administration. It is the modern way to run an effective organization. And it is the right way.

Greater flexibility

One thing is clear: if new leadership is to mean anything, it will be vital to provide for the managerial flexibility at the IRS to translate it into practice. Getting the right people in the right jobs is one of the most important elements of effective management. Everyone who has looked seriously at the IRS, including the Restructuring Commission and the Congress, agrees that this kind of flexibility is badly needed, particularly to help recruit people in the critical areas of information technology and customer service.

The IRS legislation passed in the House last year includes several provisions that will help to address this urgent need. But we believe these can and should be broadened to include other new flexibilities. Specifically, there is a need for:

- streamlined authority to appoint a limited number of critical technical, professional and management experts on a fixed term basis;
- additional critical pay authority to appoint individuals at competitive rates to critical positions, and thus boost the IRS' ability to attract high-skilled individuals to hard-to-fill vital posts in management and technology;
- authority for the Treasury Secretary, subject to Office of Personnel Management approval, to vary the provision of IRS recruitment, retention and relocation incentives, once again to be more competitive with the private sector in recruiting and retaining high-quality candidates for hard-to-fill and executive positions;
- a broadening of the proposal included in the House bill that provides for greater variation in the payment of performance-based bonuses, extending the new flexibility to cover all senior IRS executives with program management responsibility over significant agency functions.

We are working hard with Congress to include these additional flexibilities in IRS reform legislation. As the Commissioner has said, "the new IRS will not hold together without the right people in the right places". If we are serious about building a new IRS we need to give it the capacity to find, train and retain the right people.

Improved oversight

To improve oversight, since we last met Treasury has taken the existing Modernization Management Board (MMB) -- which I chair and which includes key executives in Treasury, OMB and the IRS -- and we have broadened its mandate so that it is no longer only concerned with systems modernization.

The new IRS Management Board has a broader portfolio and deals with all major strategic issues concerning tax administration. Already, it has helped to steer new strategies in important areas such as electronic filing. In addition, as of last fall the Board and the IRS have an important new source of support and expertise in Nancy Killefer, a former Director at McKinsey & Co, who is now our Assistant Secretary for Management.

Everyone recognizes the benefits of outside input as a source of expertise, continuity and accountability. Yet we in the Department have considered it important also to ensure executive responsibility for functions such as law enforcement, and to ensure effective coordination of tax policy and administration.

After discussions with Congress, the Administration was able to support the proposals included in the IRS reform legislation that passed the House last fall. We believe the new oversight board that would be created by this bill -- made up of public and private citizens -- would provide an important new avenue for outside expertise and insights.

Improved budgeting procedures

We have tried to put in place an effective budget approach for systems modernization. Our efforts to improve the underlying information systems on which the IRS depends have continued to make progress. The much-criticized TSM program is making the sharp turn we promised, to a new approach based on careful planning, step-by-step construction and reliance on the private sector. The next step in this process is the release of a Request for Proposals for a new prime systems contractor. This will happen in the near future. These new systems will not be built in a day, but they are essential if we want to have the kind of tax administration agency the American people rightly expect of us.

As we go forward we will have to ensure that the IRS obtains adequate funding for systems modernization and improved customer service -- and has the resources for tackling the enormous challenges presented by Year 2000 conversion. Last year, working with Congress, we received multi-year funding for IRS modernization. We are hoping to receive more funding in this investment account in FY 1999. We believe that stable funding is critical to provide the IRS the resources it needs to modernize its information systems.

A Simpler, Fairer Tax Code

As you know, there has been a lot of debate recently in the news and on the Hill on the issue of sunsetting the tax code. I will talk more about tax policy in a moment. I think we all recognize the difficulties that complexity has created for the taxpayers, the practitioner community, and -- not least -- the IRS itself.

Last year, President Clinton proposed and signed into law 40 tax simplification measures as part of the balanced budget agreement. As a result of that agreement:

- filing will be simpler for the 99 percent of homeowners who will not have to pay capital gains tax when they sell their home;

- filing will be simpler for the 9 out of 10 corporations who will not have to worry about the alternative minimum tax.

- and filing will be simpler for parents with dependents who have both earned and unearned income. This change will allow children to earn a greater amount of income without being subject to tax and thereby encourages them to work and save for their education or other needs.

What has become plain in the last year is that beyond the problems of efficiency at the IRS and the complexity of the code there were more critical problems of basic fairness to taxpayers than any of us had recognized. The Treasury and the IRS shared the outrage of every American at the abuses highlighted in the Senate Finance Committee hearings last fall. We have a base for moving forward in the two sets of expanded Taxpayer Bill of Rights provisions that the President has signed and are helping ensure taxpayers can count on fair treatment from the IRS, and in the work of the Taxpayer Advocate, who has already helped more than 300,000 Americans solve their tax complaints. But as the hearings made clear, this is insufficient. We need to do more.

Going forward, we are taking more steps to promote greater fairness and accountability at the IRS, including:

- ensuring that measurement of performance at the IRS depends on service in all its manifestations, not just collection rates, and does not undermine fair treatment of taxpayers, by abolishing practices such as ranking districts by enforcement activities, assigning dollar goals to individual employees and including penalty amounts in statistics of revenue collected.

- expanding the power of the Taxpayer Advocate to issue immediate relief to taxpayers in a broad range of circumstances, through tax assistance orders;

- and creating new, independent local Citizen Advocacy Panels. These panels would work with local Taxpayer Advocates to identify ways to improve taxpayer service, independently review the performance of local IRS offices in solving problems, and refer complaints to the national Taxpayer Advocate when problems cannot be resolved locally.

We have proposed a range of further Taxpayer Bill of Rights provisions and presently are working with Congress to get them enacted. These measures include new steps to require IRS collection agents to inform tax payers of the "innocent spouse" provisions in cases where they are relevant, and a provision that would permit "tolling" of the statute of limitations in certain equitable cases. Many of these provisions are included in the house-passed IRS reform legislation that, as I have said, we want to see enacted as soon as possible.

II. A Better IRS -- Today and in the Future

All of these changes are paying off in concrete ways for the American taxpayer. A good many of you have probably heard about Vice-President Gore and Secretary Rubin's announcements last week toward "reinventing" the IRS. A joint task force of Treasury and IRS staff, in conjunction with personnel from the National Partnership for Reinvention, has made over 200 specific proposals to improve customer service at the IRS. As the Vice-President said, this group has helped the IRS rediscover its last name -- "service".

Many of the proposals reflect the concerns that the practitioner community has expressed to the IRS over the years. And already a good many have been implemented:

- as of the first quarter of 1998, more than 3 million small businesses will be able to file their quarterly returns over the telephone, for free;

- a brand-new advisory committee is being formed to improve paperless filing to make it easier and more convenient;

- and, as of three weeks ago, more than 150 IRS public offices have been opening their doors on Saturdays to give extra help to taxpayers during the filing season.

This follows closely on the success of Problem Solving Days, a monthly open house for taxpayers initiated last November. On that day people had a chance to meet with senior IRS officials to work on solving long-standing problems. Taxpayers have been enormously satisfied with the service they have received on these days -- which has already involved the handling of more than 22,000 problems. In a nationwide customer service survey for the Problem Solving day in January respondents gave the IRS an average score for quality of service of 6.6 on a 7-point scale -- more than 80 percent of customers gave the top rating possible.

All of our efforts to improve IRS service and give taxpayers the same customer service from the IRS they have come to expect from the private sector are delivering concrete results.

- electronic filing is up significantly from prior years. The latest statistics, through early March, show that electronic filing is up by 21 per cent compared to the same point last year. Last week, the IRS already exceeded the total number of electronic returns received in all of last year. TeleFiling is up by 25 per cent. The number of hits to the IRS web page is up by nearly 200 per cent.

- the IRS is doing a better job in answering the phones. A year ago, nearly one third of callers got a busy signal when they tried the IRS' toll-free lines. Now that share is down to 10 percent -- and heading downwards. To be sure, we also have to continue to work to make sure that once people get through, they get helped faster so that there are fewer abandoned calls.

III. The Road Ahead

So we have worked to change the IRS -- and that effort is starting to pay off in better service for taxpayers. The question is where do we go from here? There is a wrong way to build on the progress we have achieved and there is a right way. Putting everything at risk with the abolition of our tax code and the 95 percent of federal revenues that depend on that code is the wrong way.

The wrong way to reform

As I said earlier, we have taken important steps toward simplifying the tax code but we all know we have a long way to go. Ultimately, informed consent to taxation and voluntary compliance with our tax system both demand that the people understand how the system works. If the tax system becomes too complex it will lose its moral authority. But rhetoric is no substitute for good government. And abolition is no substitute for sound reform.

It should be obvious to everyone -- I'm sure it is obvious to everyone in this room -- that taxes must be collected and someone has to take on the job. And yet, in the ferment surrounding the IRS we have heard calls to "abolish" the IRS -- and most recently we have heard calls, and seen legislation submitted, to "sunset" the Tax Code without any replacement.

Let me outline, briefly, why we believe this would carry such enormous risks:

- it would put the economic expansion at risk, with no fiscal path to rely on because there would be no clear revenue path to rely on. The sheer uncertainty involved risks a spike in interest rates that would impose a heavy cost on nearly every sector of our economy.

- it would put at risk the value of millions of families' homes -- all because house buyers would not know whether they could count on the mortgage interest deduction in the future. That could mean huge swings in house values because buyers would have to be compensated for the possibility that the deduction would not be there;

- the entire corporate sector of our economy would suffer from the inability to make any long-term commitments -- businesses would be less willing to invest because they would not be able to count on recovering the cost of that investment and they would be paralyzed by uncertainty about what would happen to approximately $3 trillion in unclaimed depreciation allowances;

- and, of course, it would threaten plans based on desirable tax preferences -- charitable deductions, for example, employer-provided health insurances...the list continues.

In short, this proposal is truly unwise, and would pose very real risks to our economy and the fiscal good health we have worked so hard to achieve.

The right reform path

The right way to proceed -- the way we must proceed -- is to pass the IRS legislation I have described, legislation that will further strengthen IRS leadership, will further improve managerial flexibility, that will further enhance oversight, that will support more effective budgeting, and that will advance the cause of a fairer tax system. And the right way is to continue to make the tax code work better for people and seriously to consider alternatives to our present tax law on the basis of the ability to be fair.

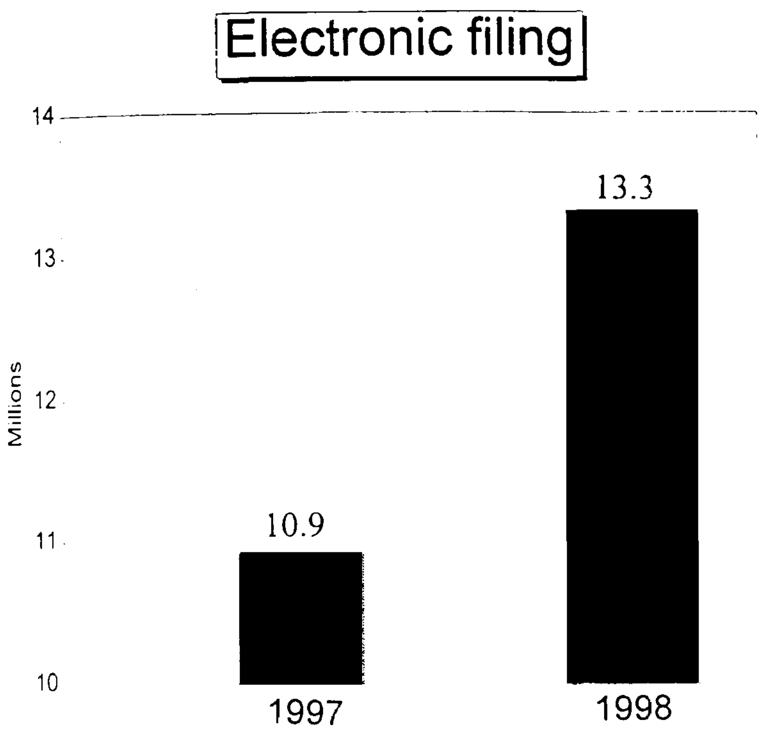
There will and must be a vigorous debate about tax policy in this country. We will and must all be concerned with identifying the tax structure that can best keep the budget balanced, promote growth, and be fair -- and as simple as possible -- to all Americans. But we must as we go forward agree that we want to have the best tax administration system we possibly can in the United States -- a system that is as effective as possible, not in collecting the most tax it can, but in collecting the right amount of tax from each taxpayer.

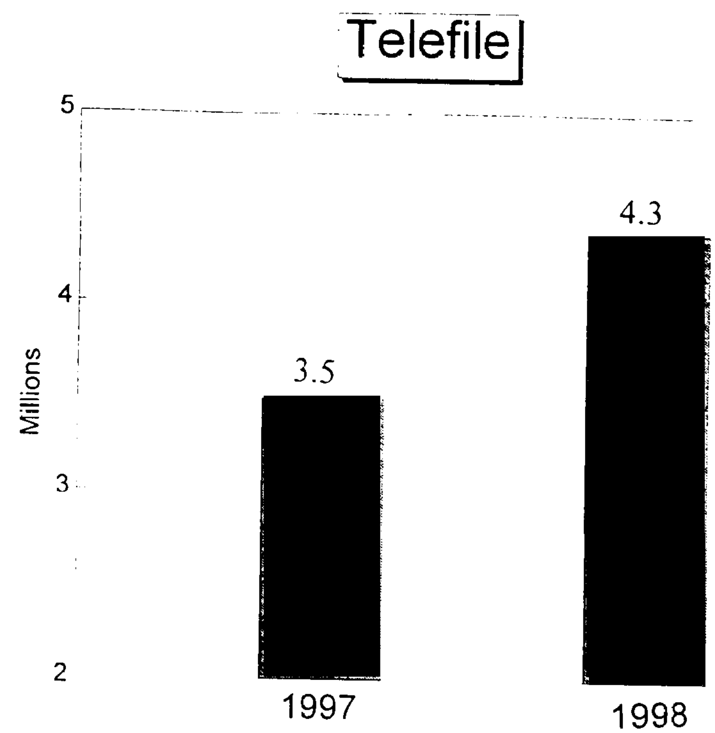
The stakes are high. As Oliver Wendell Holmes said, taxes are the price we pay for civilization. The idea that we need a fairly administered and enforced tax code should not be in dispute. Difficult as these issues are, it is vital that we maintain a constructive course. I know all of those concerned with the future of the American tax administration system will join me in condemning the 800 documented incidents of physical abuse or threats against IRS personnel that have occurred since these debates began.

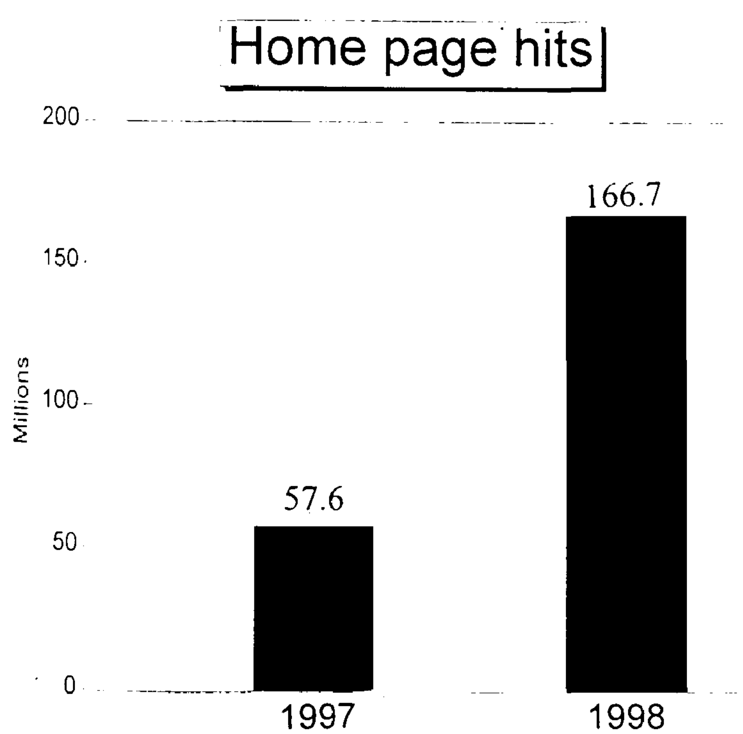
For all the difficult discussions we have had about the best way to reform the IRS, we have all been agreed on the goal: a modern, efficient accountable IRS to serve the American taxpayer well into the next century. I don't think there would be any dispute that the IRS has moved substantially nearer to that goal in the past year. With the dedicated leadership of Charles Rossotti, with all those now working to help him improve the IRS, and with the invaluable support and insights of groups such as this I am confident that we can move it even further in the months ahead. Thank you.

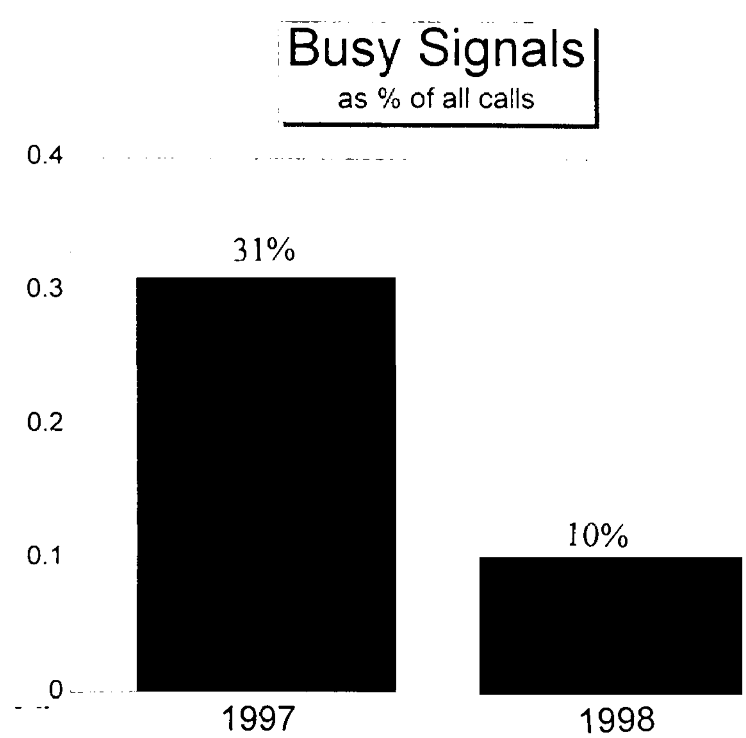
-30-

The Filing Season To Date...









Figures for both 1997 and 1998 are through the first week of March.

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
March 23, 1998

Contact: Peter Hollenbach
(202) 219-3302

BUREAU OF THE PUBLIC DEBT AIDS SAVINGS BONDS OWNERS AFFECTED BY TORNADOES IN NORTH CAROLINA

The Bureau of Public Debt took action to assist victims of tornadoes in North Carolina by expediting the replacement or payment of United States Savings Bonds for owners in the affected areas. The emergency procedures are effective immediately for paying agents and owners in those areas of North Carolina affected by the storms. These procedures will remain in effect through April 30, 1998.

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

Rockingham is the only county involved in North Carolina at this time. Should additional counties be declared disaster areas the emergency procedures for savings bonds owners will go into effect for those areas.

The replacement of bonds lost or destroyed will also be expedited by Public Debt. Bond owners should complete form PD-1048, available at most financial institutions or by writing the Richmond Federal Reserve Bank's Savings Bond Customer Service Department, 701 East Byrd Street, Richmond, Virginia 23219; phone (804) 697-8370. This form can also be downloaded from Public Debt's website at: www.publicdebt.treas.gov. Bond owners should include as much information as possible about the lost bonds on the form. This information should include how the bonds were inscribed, social security number, approximate dates of issue, bond denominations and serial numbers if available. The completed form must be certified by a notary public or an officer of a financial institution. Completed forms should be forwarded to Public Debt's Savings Bond Operations Office located at 200 Third St., Parkersburg, West Virginia 26106-1328. Bond owners should write the word "Storms" on the front of their envelopes, to help expedite the processing of claims.

RR-2313

oOo

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
March 23, 1998

Contact: Peter Hollenbach
(202) 219-3302

BUREAU OF THE PUBLIC DEBT AIDS SAVINGS BONDS OWNERS AFFECTED BY TORNADO IN GEORGIA

The Bureau of Public Debt took action to assist victims of tornadoes in Georgia by expediting the replacement or payment of United States Savings Bonds for owners in the affected areas. The emergency procedures are effective immediately for paying agents and owners in those areas of Georgia affected by the storms. These procedures will remain in effect through April 30, 1998.

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

Georgia counties involved are Dawson, Habersham, Hall, Rabun and White. Should additional counties be declared disaster areas the emergency procedures for savings bonds owners will go into effect for those areas.

The replacement of bonds lost or destroyed will also be expedited by Public Debt. Bond owners should complete form PD-1048, available at most financial institutions or by writing the Richmond Federal Reserve Bank's Savings Bond Customer Service Department, 701 East Byrd Street, Richmond, Virginia 23219; phone (804) 697-8370. This form can also be downloaded from Public Debt's website at: www.publicdebt.treas.gov. Bond owners should include as much information as possible about the lost bonds on the form. This information should include how the bonds were inscribed, social security number, approximate dates of issue, bond denominations and serial numbers if available. The completed form must be certified by a notary public or an officer of a financial institution. Completed forms should be forwarded to Public Debt's Savings Bond Operations Office located at 200 Third St., Parkersburg, West Virginia 26106-1328. Bond owners should write the word "Storms" on the front of their envelopes, to help expedite the processing of claims.

RR-2314

oOo

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
March 23, 1998

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Term:	91-Day Bill
Issue Date:	March 26, 1998
Maturity Date:	June 25, 1998
CUSIP Number:	9127944W1

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate 1/	Price
Low	5.020%	5.155%	98.731
High	5.030%	5.164%	98.729
Average	5.030%	5.164%	98.729

Tenders at the high discount rate were allotted 69%.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 40,192,096	$ 4,725,621
Noncompetitive	1,213,063	1,213,063
PUBLIC SUBTOTAL	41,405,159	5,938,684
Federal Reserve	3,019,235	3,019,235
Foreign Official Inst.		
Refunded Maturing	320,000	320,000
Additional Amounts	0	0
TOTAL	$ 44,744,394	$ 9,277,919

/ Equivalent coupon-issue yield.

RR-2315

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

'OR IMMEDIATE RELEASE
larch 23, 1998

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Term:	182-Day Bill
Issue Date:	March 26, 1998
Maturity Date:	September 24, 1998
CUSIP Number:	912795AK7

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate 1/	Price
Low	4.970%	5.170%	97.487
High	4.995%	5.195%	97.475
Average	4.990%	5.191%	97.477

Tenders at the high discount rate were allotted 100%.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 27,676,100	$ 3,323,600
Noncompetitive	1,129,415	1,129,415
PUBLIC SUBTOTAL	28,805,515	4,453,015
Federal Reserve	3,110,000	3,110,000
Foreign Official Inst.		
Refunded Maturing	2,800,000	2,800,000
Additional Amounts	0	0
TOTAL	$ 34,715,515	$ 10,363,015

Equivalent coupon-issue yield.

RR-2316

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
March 24, 1998

Contact: Kelly Crawford
(202) 622-2960

TREASURY AND COMMERCE RELEASE ANALYSIS SHOWING IMPACT OF ASIAN CRISIS ON INDIVIDUAL STATES

The Department of Treasury and Department of Commerce today released a state-by-state analysis about the importance of Asian markets to individual states across the United States.

The study reveals the extent to which trade with Asia has become an important component of U.S. economic growth. "Like the United States as a whole, states have viewed exports as critical to economic growth," said Treasury Secretary Robert Rubin. "As a result the financial crisis in Asia is likely to impact the lives of residents and businesses in states across the country."

"This report underscores the degree to which individual states are tied to Asian economies," said Commerce Secretary William Daley. "This is further evidence that Asian economic recovery is not only in our national interest, but in the interest of communities and working people across the country."

The report analyzes the importance of exports to Asia for individual states. In addition, the report looks at specific industries within each state that have a stake in the health of Asian economies. The report is based on data from the Department of Commerce and the Department of Agriculture.

Some of the highlights of this report include:

- Thirty percent of U.S. exports go to Asia, supporting millions of U.S. jobs, and we export more to Asia than Europe. For a number of states, including California, Oregon and Washington, more than 50 percent of exports go to Asian markets.

- Forty percent of all of U.S. agricultural exports go to Asia, more than to any other region.

- More American exports mean higher paying American jobs. Studies have shown that export-related jobs in the U.S. pay an average of 15 percent more than other jobs.

State-by-state data can be obtained on the Treasury web page at *www.ustreas.gov/press/*.

RR-2317

-30-

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. EST
Text as Prepared for Delivery
March 24, 1998

TREASURY DEPUTY SECRETARY LAWRENCE H. SUMMERS
SENATE COMMITTEE ON COMMERCE, SCIENCE AND TRANSPORTATION

Mr Chairman, thank you for giving me this opportunity to discuss economic and financial aspects of tobacco legislation proposals presently before Congress. As you know, President Clinton strongly supports the efforts of yourselves and others in Congress to forge comprehensive legislation, consistent with the principles he outlined last fall, to protect America's children from the deadly threat of smoking.

At Treasury and throughout the Administration we have been and will remain one hundred percent committed to working with this Committee and others in Congress to address an issue of such enormous consequence for the health of the American people and our economy.

I would like to focus my remarks today on the proposals in the President's budget and their implications for public health, something that will depend critically on the increase in cigarette prices. I will also address the concern that comprehensive tobacco legislation in line with the President's core principles would impose unmanageable adjustment costs on tobacco suppliers and the tobacco industry as a whole.

First, however, let me say a few words about the background for this discussion: the enormous burden that smoking imposes on our nation and our economy; the need to cut teen smoking to start reducing that burden; and the President's call for comprehensive legislation to achieve that goal.

I. Combating Smoking: the Need for a Comprehensive Approach

1. The Human and Economic Costs of Smoking

Smoking is by far the largest preventable cause of premature death in the U.S. As Dr. David Satcher noted in his testimony last week, over 400,000 Americans die each year of

RR-2318

tobacco-related diseases. This toll exceeds the deaths from AIDS, homicide, suicide, alcohol use, illegal drug use, fires and auto accidents combined. Recent estimates suggest that on present patterns of tobacco-use, an estimated 25 million of today's Americans will die prematurely from a smoking-related disease.

Behind these heavy human costs of smoking lie equally heavy economic costs for our nation:

- we spend about $60 billion each year treating smoking related illnesses. On its own, smoking during pregnancy -- which results in 2500 fetal deaths and doubles the odds of being born with low birth weight and potentially suffering problems later in life as a result -- costs the country some $3-4 billion every year;

- fires caused by smokers cost another $500 million -- and 2000 lives -- per year;

- smokers with group life insurance push up the premiums of the non-smokers in their insurance pool by about $4 billion dollars per year;

We must also consider the enormous cost to our economy from all the premature retirements and premature deaths of productive workers that are caused by smoking -- amounting to $60 billion or more in lost wages.

2. The Importance of Reducing Teen Smoking

There is a strong consensus on the need to reduce smoking in this country and the heavy costs that smoking brings with it. And there is an equally strong consensus on the most effective way to achieve that goal. It is to stop smoking when it starts -- in adolescence. Nine out of ten smokers start when they are in their teens. And the record shows that once they start smoking, they are unlikely to stop.

Each day, 3000 young people become regular smokers. Fully one third of them will have their lives cut short by it, because it causes an addiction that is very hard to shake later on. Nearly half of teen daily smokers think they will not be smoking five years later. Yet only one fifth actually manage to quit. One half of teen smokers try to quit and fail; and by age 18, two-thirds have already regretted starting. The regret is understandable: nearly half of adult smokers try to quit every year, but only about 2.5 percent succeed.

3. The Need For a Comprehensive Approach

The Administration's efforts are guided by another lesson of experience: that preventing youth smoking demands a comprehensive attack on the problem, an approach that makes tobacco companies part of the solution. The fact is that the piecemeal approaches of past years have not worked. Youth smoking has continued to grow through the 1990s and shows no sign of declining.

What is required is a coordinated, comprehensive approach based around the five core components that the President outlined last fall:

- a combination of annual payments and penalties designed to achieve targeted reductions in teen smoking by raising the price of a pack of cigarettes by up to $1.50.

- full authority for the Food and Drug Administration to regulate tobacco products;.

- real changes in the way the tobacco industry does business, including an end to marketing and promotion to children.

- progress toward other public health goals, including biomedical and cancer research, a reduction of second-hand smoke, promotion of smoking cessation programs, and other urgent priorities

- protection for tobacco farmers and their communities

We believe that all five of these components are critical to a solution and are mutually reinforcing: the effectiveness of any one is substantially increased by the presence of the others. For example, studies in Massachusetts and California suggest that while increasing the price of cigarettes is one of the most cost-effective short-term strategies for reducing tobacco consumption, the ability to sustain that reduction is significantly increased when the price increase comes with a comprehensive anti-smoking campaign along the lines outlined above. And the more we are able to coordinate our efforts across state and county lines, the more effective such an approach will be.

II. The Economic Implications of a Comprehensive Approach

It is in the nature of this comprehensive approach to combat youth smoking that it will involve many parts of our government working together. Thus, several of the components I have described will properly be matters for other departments to address. In my remarks I shall focus mainly on two interrelated aspects of the Administration's approach that are of particular relevance to Treasury: the implications for the pricing of cigarettes and the prevalence of youth smoking. I also will say a few words about the implications for tobacco farmers and manufacturers.

1. The Implications for Cigarette Prices and Youth Smoking

Implications for Prices

A large body of evidence suggests that the most effective way to reduce smoking by young people is to raise the price of cigarettes. Thus, to measure the impact of any tobacco legislation on youth smoking we need to measure the impact on the price of cigarettes to consumers.

The President's budget calls for assessments which would result in cigarette price increases. As Table 1 shows, the budget plan's impact on prices would rise from 62 cents in 1999 to $1.10 in 2003 in constant dollars. Let me be clear: this figure represents the increases that would be directly attributable to the passage of comprehensive legislation. It does not represent the anticipated increase in the base price of cigarettes during a period in which a number of relevant features of the surrounding environment will be changing. For example, there is the increase in federal excise taxes scheduled to take place over the next five years.

As Table 1 further indicates, we anticipate that without any legislation the baseline price will rise from $1.94 today to $2.09 in 2003 in real terms. Combining this rise in the baseline price with the $1.10 increase resulting from the President's budget, the total price of a pack of cigarettes in 2003, in constant dollars, is projected to be $3.19.

Mr. Chairman, although such price levels are common in many other countries, they are higher then those we have experienced in the United States. We have been and will continue to be mindful of the many uncertainties about how an increase of this kind will ultimately translate into retail prices. Because our primary goal in this endeavor is to advance public health through the reduction of teen smoking, we have been conservative in many of our calculations in order not to risk falling short of our goals.

Specifically:

- we have assumed that wholesalers and retailers will not add their existing mark-ups to the settlement costs passed on by manufacturers. In fact, virtually all of the relevant empirical evidence[1] suggests that there will be very little "pyramiding" of this kind. That is why the FTC, in their analysis of the original Attorneys General settlement, assume in their baseline that there would not be this kind of mark-up of the payments made by manufacturers in the prices paid by consumers.

- we assume the major increase in pricing nationwide would come as a consequence of federal action in the context of comprehensive legislation, and not as a result of significant tax increases on the part of the states.

- finally, we have not included in our forecasts the additional impact of state sales taxes on the final price of cigarettes, on the grounds that these are not part of the posted price of cigarettes at the point of sale.

It may be that, as several commentators have suggested, these assumptions -- along with

---

[1]For example, Barnett, Keeler, and Hu's 1995 study estimated a pass-through rate from federal taxes to retail prices of about 102 percent over the 1955 to 1990 period. Sumner's 1981 study over state tax increases the 1954-1978 period found a pass-through rate of 103 to 107 percent, and Merriman's 1994 study estimated a rate of 106 percent.

our assumptions on other matters such as black and gray market activity, which I will discuss below -- are too conservative.[2] I might also note, in this context, that we have assumed that the vast majority of the legislation's cost will be passed on to United States consumers of domestic cigarettes rather than to the shareholders in tobacco companies or consumers of other goods produced by these companies. Clearly the uncertainties involved leave room for reasonable people to disagree.

If our estimates turn out to have understated the eventual impact on prices --which we do not expect --the health benefits envisioned in the President's budget would be achieved that much more quickly. Our estimates show that for every 10 cents added to the price of cigarettes, approximately 270,000 fewer teenagers will begin smoking between 1999 and 2003 --and more than 90,000 premature deaths will be avoided.

Overall Implications for Youth Smoking

As I noted earlier, the impact of any given price increase on youth smoking will be significantly increased by other elements of the comprehensive approach the President has called for -- notably, a crackdown on youth marketing and advertising by tobacco companies and more effective enforcement of legal restrictions on tobacco sales to young people.

Studies have found a 69 percent decline in daily use by seventh and eighth graders in Woodridge, Illinois following legislation and enforcement of restrictions on cigarette sales to minors, and a 44 percent decline in junior high school students' smoking in Leominster, Massachusetts as a result of strictly enforced sales restrictions. For our own estimates, we used a conservative assumption that experts have recommended -- that comprehensive sales and marketing restrictions will reduce youth smoking by about 15%.

The combination of the price increase anticipated above and the tighter restrictions on youth access and marketing leads to dramatic reductions in youth smoking. Table 2 presents these results, showing that the price increase reduces teenage smoking by 29%. Youth access and market restrictions reduce teenage smoking by an additional 11%. Furthermore, we estimate that our plan will:

- reduce the number of youths smoking each year by as many as 1.9 million by 2003;
- reduce the cumulative number of youths who smoke between now and 2003 by 3 million;

---

[2]For example, Martin Feldman of Salomon, Smith, Barney has estimated that the President's budget will result in a total price per pack which is 34 cents beyond our estimate of $3.19. However, 30 cents of this extra rise can be explained by his assumption that wholesalers and retailers will add to their existing price mark-ups -- an assumption which runs against virtually all relevant empirical evidence. Another prominent industry analyst, Gary Black of Sanford Bernstein, in his analysis of the June 20 settlement, projects these mark-ups will actually fall.

- and avoid roughly 1 million premature deaths as a result.

These estimates suggest the value of such a comprehensive approach to combating teen smoking. But we cannot and will not let our success in this effort depend on the accuracy of today's best estimates. The many uncertainties involved in making these predictions only underline the importance of incorporating in any legislation the Administration's concrete targets for reducing youth smoking. These aim to cut youth smoking by 30% after 5 years, 50% after 7 years, and 60% after 10 years. And in the strong youth lookback penalties that the President has proposed we have additional insurance that these targets will be met.

We have had fruitful discussions with the staffs of a number of members of both the House and Senate about the appropriate structure of youth lookback penalties, and we recognize that there are several different ways of providing the necessary insurance. But we believe that any lookback penalty structure should not be tax deductible and should meet two principles:

- it must be levied on both the industry as a whole and on individual companies specifically. These two types of penalty structures serve two different purposes. The industry penalties, which are likely be passed on to price, provide "price insurance", relying on the best tool we have (cigarette prices) to lower youth smoking if we miss our targets. The company specific penalties, on the other hand, provide "non-price insurance," holding specific companies accountable for their actions in selling tobacco products to youth and thereby providing a profit incentive to take other actions to reduce youth use of their products.

- the penalties must be sizeable in those cases where the industry or specific firms miss their targets by a substantial margin. This could be accomplished, for example, by having penalties that increase with the distance the company is from its target.

Let me add that as part of our economic analysis we have also considered issues relating to possible black and gray market activity following legislation. As Figure 1 shows, even in the context of legislation that produced a price increase significantly higher than that presently being considered, cigarette prices in the United States would still be significantly lower than has proved workable in other countries.

The fact that the price increase is primarily to be achieved through direct payments by the tobacco companies should significantly ease the task of enforcement relative to other cases in which the increase is achieved through higher excise taxes at the retail level. But as you know, we have been working with your staff and others on a proposed system of licensing and registration to control the diversion of tobacco and prevent any smuggling that may occur.

2. The Implications For the Tobacco Industry

Questions have arisen about the impact of legislation on tobacco manufacturers and their suppliers. We are confident that the changes in pricing and behavior that we are seeking can be achieved without putting producers' livelihoods or the health of the broader economy at risk.

Tobacco farmers

There are more than 124,000 American farmers engaged in the production of tobacco in this country. Largely concentrated in certain, heavily tobacco-dependent regions, they and their families have already been forced to undergo difficult adjustments as the overall demand for tobacco in this country has declined. We cannot and will not leave these highly vulnerable families and communities behind in crafting a comprehensive approach to reducing smoking much faster in the years to come.

That is why one of the President's principles is protection for tobacco farmers and their communities. And it is why we have supported, in this context, the efforts of the many Senators and House members who have been working to provide for this protection. One method of protecting these farmers is continuing production control programs, such as that included in the LEAF Act supported by Senators Ford, Hollings, and Frist. The Administration agrees that controls on production can be one element of a system that meets the President's five principles, and we look forward to being able to support the product of your work in this area.

As we go forward the President is committed to working with Congress to find the best way both to protect the health of our children and to protect the economic well-being of our farmers. So, too are the coalition for public health and tobacco farming organizations that last week endorsed a set of principles with which both groups could agree. These organizations include the Burley Tobacco Growers Cooperative, the Flue-Cured Tobacco Stabilization Corporation, the American Heart Association, the American Cancer Society, and the Campaign for Tobacco Free Kids. And let me add: we are determined that one important use of the funds raised by higher prices on cigarettes will be the provision of funds to protect the economic well-being of tobacco farmers and their communities.

Tobacco manufacturers

The best evidence suggests that comprehensive legislation consistent with the President's five principles would come at some detriment to the profitability of American tobacco companies. However, it is important to bear in mind that a central feature of both the settlement and all of the legislation that has been proposed to date is an expectation -- indeed, an express desire -- that companies will pass the costs on to the price of tobacco products.

To the extent that the costs are indeed passed on to prices, the impact on the profitability of these companies will be less than many have perhaps imagined and certainly insufficient to create major disturbance to the economy. The FTC analysis of the June 20 Attorneys General settlement suggested that the total impact of the settlement would lead to, at most, a 15 percent reduction in tobacco industry profits. Applying similar methodologies to the President's budget proposals -- and bearing in mind, once again, the very large uncertainties that exist -- suggests a reduction in operating profits of around 23 percent.

There is also the separate question of how the market would value any given stream of profits in the event that comprehensive legislation reduced some portion of the substantial legal uncertainties these companies presently face. It has been widely acknowledged by Wall Street analysts that the resolution of some of the uncertainties facing this industry will increase the market valuation of the future income streams of tobacco firms. This effect would tend to offset the reduction that I noted in the level of these future income streams.

III. Concluding Remarks

Members of the Committee, as the President has said: "we stand on the verge of one of the greatest public health achievements in history -- an historic triumph in our fight to protect America's children from the deadly threat of tobacco." The opportunity is there for the taking: in the comprehensive, five-part approach that the President has called for and so many in Congress are striving to achieve.

The stakes are high. Every day that we do not take action means that another 3,000 young people will become regular smokers. Just in the time that I have been speaking to you, 20 children have started smoking, and 7 of them will die prematurely as a result. We cannot afford to delay one child longer. If we pass comprehensive legislation that meets the targets laid out in our budget, in five years' time around 40 percent fewer American children will be smokers; in 10 years time, the number will have been halved. I look forward to working closely with you, Mr Chairman, with the members of this committee and with others in Congress as we work to take this historic step forward for the future of our nation and the future of our economy. I would now welcome any questions.

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

March 24, 1998

The Honorable Robert L. Livingston
Chairman
Committee on Appropriations
United States House of Representatives
Washington, D.C. 20515

Dear Bob:

I understand that the Committee is scheduled to consider today a bill to provide supplemental appropriations and authorization for U.S. participation in the New Arrangements to Borrow (NAB) and an increase in the quota in the International Monetary Fund (IMF), and I am writing to provide our views on the Full Committee Print of the bill. I hope these comments will prove useful to you and your colleagues as the bill moves toward enactment.

First, let me express our appreciation for the bill's recognition that the Congress should act now to authorize and appropriate funds for both the NAB and the quota increase, thereby reaffirming the decision of the Committee on Banking and Financial Services in a strong bipartisan vote on March 5. We strongly believe that immediate approval of these requests is necessary to provide the IMF with the resources it needs to protect the international financial system - and therefore the U.S. economy - against the risk of new or escalating financial crises of the kind now gripping key East Asian economies. Your Committee's bill would advance the process very constructively toward achieving an objective that we believe is very much in the interests of all Americans. The Administration is disappointed that the pending supplemental appropriations have been segregated into two distinct appropriations bills and strongly recommends that the two House measures should be combined into a single bill.

In this context, I ask that you consider several very serious concerns we have with some of the provisions of the Committee Print. I will focus my remarks on those sections that represent new provisions outside of the scope of HR 3114, as reported by the House Banking Committee. I would also note that several provisions of the Banking Committee bill were not included in the Committee Print and would express my hope that your Committee will report a bill that could enjoy bipartisan support on par with that of HR 3114. I hope that we can work together to achieve this result.

Section 401 of the Committee Print would condition the availability of the increased U.S. quota resources on a Secretarial notification that it is the policy of the IMF that all lending agreements above $500 million with member countries include certain specified commitments by the borrowing country. We appreciate the effort of the Committee to find a more practical way to achieve the policy objectives substantially shared by Treasury. Unfortunately, the bill's proposed language is still very problematic and, in the end, we believe it would be unworkable. If it became law, this provision likely would delay indefinitely the implementation of the quota increase, denying the IMF the resources it needs to perform its mission during a period of crisis. Under the terms of the IMF resolution governing member-country assent to the quota increase, member countries cannot condition their assent, as this legislation would require. (While this precludes conditioning the availability of U.S. funds on subsequent IMF policy decisions, it does not prevent the U.S. from undertaking a commitment to use its "voice and vote" to promote certain policies at the IMF.) As a result, Section 401, as currently drafted, would prevent the quota increase from going into effect.

It is not currently the policy of the IMF to require that every lending program above a certain size include the specific commitments mandated by the bill. Such a policy change is a decision beyond the control of the United States. At the very least, it would take considerable time to form a weighted majority consensus among the Fund's 182 members, especially on a set of very specifically worded provisions that must be part of every such loan program extended by the Fund.

Section 402(c) would impose new notification requirements on the use of the Exchange Stabilization Fund (ESF), which would limit our ability to respond flexibly under existing law. Use of the ESF is not related to legislation to authorize and appropriate funds for the IMF, and we strongly object to the inclusion of ESF provisions in this bill.

Section 408, like Section 401, would impose unworkable conditions on the release of U.S. funds to the IMF and therefore also would be likely to delay indefinitely the implementation of the quota increase at the IMF. This provision is worded much more broadly than Section 401 and could be read to condition the release of all U.S. funds to the IMF, not just those appropriated for the quota increase, which could jeopardize the Fund's ability to finance its existing as well as new programs. This would amount to a retroactive conditioning of all past U.S. commitments to the Fund, including quota subscriptions and the General Arrangements to Borrow, and would also apply to the New Arrangements to Borrow.

Section 408 would in this way condition U.S. funding on an annual Secretarial certification that the IMF make publicly available various forms of IMF documents and information, including minutes of Executive Board meetings and staff reviews of Fund programs, with certain redactions. As is the case with the requirements of Section 401, these requirements are not part of current IMF policy, which does not permit the release of this information, and thus this provision makes U.S. funding contingent on events beyond our control. The United States has been - and will continue to be - an aggressive advocate of increased transparency and accountability at the Fund, and we have achieved reasonable progress on this front in recent years. But success requires considerable time and effort to persuade the membership to change its policies, and cannot be postulated as a pre-condition for continued funding.

Let me thank you again for moving forward with legislation containing both the IMF quota increase and NAB participation. We look forward to working with you to complete the legislation in the very near future.

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

EMBARGOED UNTIL 2:30 P.M.
March 24, 1998

CONTACT: Office of Financing
202/219-3350

TREASURY'S WEEKLY BILL OFFERING

The Treasury will auction two series of Treasury bills totaling approximately $13,500 million, to be issued April 2, 1998. This offering will result in a paydown for the Treasury of about $1,400 million, as the maturing publicly held 13-week and 26-week bills are outstanding in the amount of $14,911 million. In addition to the maturing 13-week and 26-week bills, there are $13,578 million of maturing publicly held 52-week bills. The disposition of this latter amount was announced last week.

In addition to the public holdings, Federal Reserve Banks for their own accounts hold $12,722 million of the maturing bills. These accounts are considered to hold $7,227 million of the maturing 13-week and 26-week issues, which may be refunded at the weighted average discount rate of accepted competitive tenders. Amounts issued to these accounts will be in addition to the offering amount.

Federal Reserve Banks hold $4,682 million of the maturing bills as agents for foreign and international monetary authorities. These may be refunded within the offering amount at the weighted average discount rate of accepted competitive tenders. Additional amounts may be issued for such accounts if the aggregate amount of new bids exceeds the aggregate amount of maturing bills. For purposes of determining such additional amounts, foreign and international monetary authorities are considered to hold $3,445 million of the original 13-week and 26-week issues.

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

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

oOo

Attachment

RR-2320

HIGHLIGHTS OF TREASURY OFFERINGS OF WEEKLY BILLS
TO BE ISSUED APRIL 2, 1998

March 24, 1998

<u>Offering Amount</u>	$6,250 million	$7,250 million
<u>Description of Offering</u>:		
Term and type of security	91-day bill	182-day bill
CUSIP number	912795 AA 9	912795 AL 5
Auction date	March 30, 1998	March 30, 1998
Issue date	April 2, 1998	April 2, 1998
Maturity date	July 2, 1998	October 1, 1998
Original issue date	January 2, 1998	April 2, 1998
Currently outstanding	$10,762 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 three decimals in increments of .005%, e.g., 7.100%, 7.105%.
(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 $1 billion or greater.
(3) Net long position must be determined as of one half-hour prior to the closing time for receipt of competitive tenders.

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

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

<u>Receipt of Tenders</u>:

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

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

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

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
March 25, 1998

"The Economic Case for Comprehensive Tobacco Legislation"
Remarks by Lawrence H. Summers
Deputy Secretary of the Treasury
George Washington School of Health
Washington, DC

Thank you. It's a pleasure to be here at George Washington School of Public Health to discuss an issue of such importance to the health of our nation and of our economy.

We meet at an auspicious time, a time when the economic enemies of our past seem far from view. Inflation and unemployment are at their lowest in a generation. And the budget deficit -- the burden that so long weighed us down -- has been lifted. There could be no better time to adjust our sights and look to the future. Our economic good health provides us with a golden opportunity to invest in a stronger, richer America to bequeath to our children.

I would like to talk today about an issue the Deputy Treasury Secretary might not usually talk about but is a critical part of seizing that opportunity -- the need for a comprehensive approach to combat smoking. Smoking is still by far the largest preventable cause of premature death in the U.S. It is directly responsible more than 400,000 deaths per year -- more than all of the deaths associated with AIDS, alcohol, cocaine, heroin, homicide, suicide, auto accidents and fires combined. It is a fatal habit that 3,000 American children take up every day, 1,000 of whom will die prematurely as a result.

None of you will need reminding of these consequences of smoking. Today I would like to discuss the economic costs, as described in a new Treasury study released this morning; why combating smoking requires comprehensive tobacco legislation along the lines the President has called for; and the very real human and economic benefits that such legislation would bring.

Some would argue that when one is dealing with the outcome of individual consumption decisions, this kind of cost analysis is inappropriate. Yet it is questionable that viewing cigarette smoking as a consumer choice -- like dishwasher detergents or frozen pizza -- provides a helpful

RR-2321

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

paradigm when nine out of ten smokers started when they were only teenagers, and when they substantially underestimated how difficult it would be to quit. By the time they are adults the vast majority of smokers wish they could quit. Yet while nearly half of adult smokers try to quit every year, only about 2.5 percent succeed.

I. Tobacco: The Price We Pay for Inaction

Policy makers -- no less than scientists -- are perhaps at their most persuasive when they focus on the counterfactual. In calculating the overall economic cost of smoking the Treasury study had to consider the full range of costs associated with smoking -- costs that we would continue to pay if we failed to take comprehensive action.

1. The waste of scarce medical resources

The Surgeon General recently testified that smoking-related illnesses cost our nation more than $50 billion in 1993. Adjusted for inflation, the figure today would be closer to $60 billion. Of course, if we eliminated smoking tomorrow the resulting savings would be partially offset by additional medical expenses incurred as a result of people living longer lives. Taking these into account, we estimate total net medical costs due to smoking of $45 billion.

To put this figure in perspective: a young woman who starts smoking today can expect to face an extra $14,800 in additional lifetime medical costs as a result of that decision. And if she smokes more than a pack a day, her additional lifetime costs could be well over $25,000. The tuition costs for a Master's Degree here at GW almost sound cheap in comparison -- a "mere" $22,500.

2. The extra costs when smokers give birth

On its own, smoking during pregnancy is estimated to cause 2500 fetal deaths every year and around $4 billion a year in additional medical and other costs due the greater severity of complications during pregnancy and delivery, and the higher risk of having a low-birth weight baby. Low-birth weight children have a much higher probability of missing grades and thus a higher chance of dropping out of school -- meaning lower earnings, a greater likelihood of committing crimes, and a much higher chance of needing social services than high school graduates or those who go on to college. The Treasury study only attempts to capture the costs incurred up to the age of sixteen. But have no doubt that those longer term costs are real.

3. *The costs of smoking-related externalities*

The fires caused by smokers cost this country some 2,000 lives, and more than $500 million worth of damage each year. The costs of second-hand smoking are more a matter for dispute. But for children it may result in about 15,000 hospitalizations with respiratory illnesses, exacerbate asthma in 200,000 to 1 million kids, and increase the number of new asthma cases.

4. The cost in reduced productive capacity of our economy

We know that smokers tend to die younger and retire sooner. Even without the added medical expenses, this would carry a price to our economy in lost output and lost wages, that careful analysis suggests could be as high as $80 billion a year. There is a further drain on the economy of around $500 million due the output lost as a result of additional days off work -- given that smokers have 50 percent higher absentee rates than their nonsmoking colleagues. Some studies have suggested that, other things equal, the lower productivity associated with smoking translates into 4 to 8 percent lower earnings for smokers. The Treasury study excludes these more speculative estimates, but it is worth noting that including it might add another $50- $125 billion to the economic cost of smoking.

5. *The cost in shortened lives*
No dollar total will ever do justice to the price of a life cut short. But obviously, from the precautions we all take and spend dollars on, and the additional wages we demand in return for taking on more hazardous occupations, we can see the precautionary value attached to reducing the risk of mortality. This should be taken into account when judging the costs of smoking given that it is an activity that directly results in an increased risk of a shorter life.

The details of calculating the loss involved here are complex and economists differ as to the best way to capture it. But the more standard studies suggest that reduced mortality risk can be valued at around $3 million. For illustrative purposes, the Treasury study includes a calculation based on a more conservative estimate of the cost of mortality risk. With each cigarette smoked taking 7 minutes from the average smoker's life, this leads to an estimated, smoking-induced cost of reduced mortality -- over and above the lost productive output I mentioned earlier -- of around $120 billion per year, the equivalent of $5 dollars for every pack sold.

6. *Counting the cost*
Putting together the least disputed costs of smoking -- adult medical costs, the pregnancy and neo-natal care associated with smoking while pregnant, the cost in smoking-induced fires, in lost workdays and overall lost output from shortened work lives -- yields a net cost of smoking to the United States economy of upwards of *$130 billion* annually.

It is important to recognize that all of these represent, in the language of economics, real resource costs. That it is to say, the $130 billion that smoking costs is much more burdensome to our economy than the same amount levied in taxes, which impose a cost on consumers, but provide offsetting revenues to our government. It is proverbial that there is no such thing as a free lunch. But in a sense, successfully preventing people from acquiring an addiction they do not want to have -- by effectively combating youth smoking -- is a free lunch with real benefits for our economy as well our nation.

II. Today's Urgent Priority: a Comprehensive Attack on Smoking
The costs of inaction make the case for action. The question is how best to proceed. The broad approach that we in the Administration have supported and that many in Congress are working to craft is based on two premises.

The first is that we have to start with young people. I noted earlier that 90 percent of smokers began when they were teenagers. That is to say, it is a problem of people who became addicted to smoking when they were young, under-informed and generally below the age of consent. Nearly half of teen daily smokers think they will not be smoking five years later. Yet only one fifth actually manage to quit.

The second is that a comprehensive approach is required. Price increases are helpful but they are not sufficient. Studies in Massachusetts and California suggest that while increasing the price of cigarettes is one of the most cost-effective short-term strategies for cutting tobacco consumption, the capacity to sustain that reduction is greatly enhanced when the price rise comes with a comprehensive anti-smoking campaign. What is being contemplated is a radical transformation in a major American industry. Thus, a whole range of adjustments need to be considered and -- history suggests -- insurance mechanisms need to be devised to allow for the possibility that behavior may not change as readily or as quickly as we now anticipate.

What is required is a coordinated, comprehensive approach based around the five core components that the President outlined last fall.

1. A combination of annual payments and penalties on the tobacco industry designed to achieve targeted reductions in teen smoking by raising the price of a pack of cigarettes by up to $1.50 over 10 years.
A significant price increases is integral to any comprehensive plan to reduce youth smoking because, quite simply, the best way to combat youth smoking is to raise the price. Young people are much more price sensitive than adult smokers, both because they have fewer financial resources, and because they are not (yet) as addicted. Consensus estimates suggest that every 10 cent increase in the price of a pack of cigarettes leads to approximately 270,000 fewer teenagers becoming smokers between 1999 and 2003 -- more than 90,000 of whom will no longer die prematurely.

2. Full authority for the Food and Drug Administration to regulate tobacco products.
The Administration has worked to give the FDA the authority it needs to act effectively against teen smoking, but its use of that authority has been hampered by a number of recent court actions. If we are to win the battle against youth smoking we must lift this cloud of uncertainty and reaffirm the FDA's rightful position in the front line.

3. Real changes in the way the tobacco industry does business, including an end to marketing and promotion to children.
Real restrictions on youth access and marketing will likewise be integral to a successful solution. For years now the dangers of smoking have been known and widely publicized, yet 90 percent of six year-olds recognize Joe Camel as instantly as they do Mickey Mouse. And studies have shown that teens are much more likely than adults to buy the three most heavily advertised brands of cigarettes.

Once again, what is being called for here is a fundamental change in the way tobacco companies and retailers do business. No-one can be certain how quickly such a change can be achieved. Yet we cannot and will not let our success in this effort depend on the accuracy of today's best estimates. That is why the President has called for strong youth lookback penalties to be included in the legislation to provide additional insurance that the Administration's targets for reducing youth smoking will be met.

4. Progress toward other public health goals, including biomedical and cancer research, a reduction of second hand smoke, promotion of smoking cessation programs, and strengthening of international efforts to control tobacco.
Finding the best ways to reduce teen smoking, and help older smokers quit is an urgent challenge for public health. We need to marshal the combined resources and expertise at the national, state and community level to expand our knowledge of the causes and effects of smoking and use what we already know to better effect. Across the country, experiments in second hand smoke reduction and smoking cessation programs have been yielding important lessons on what works and what does not. But we need to find out more. And we need to make sure that those lessons are being applied.

5. Protection for tobacco farmers and their communities
Finally, a comprehensive approach to reducing youth smoking can and must take account of the legitimate concerns of the 124,000 farmers who are involved in tobacco production and the families who depend on them. A commitment to compensating these communities for a new nationwide approach to tobacco is integral to our search for a comprehensive solution.

We believe that all five of these components are critical to a solution. They are all mutually reinforcing in the sense that the effectiveness of any one is substantially increased by the presence of the others. In particular, the more we are able to coordinate our efforts across state and county lines, the more effective such an approach will be. While it has long been recognized that higher prices means fewer teen smokers, the federal tax on cigarettes has barely kept pace with inflation in the last three decades. Indeed, the real level of federal and state taxes combined that existed in 1964 -- when the surgeon general first warned of the dangers of smoking -- will not be restored until 2002, when the historic increase in the federal excise tax that was enacted in last summer's budget agreement is fully implemented.

III. The Prize: Potential Human and Economic Benefits of a Comprehensive Approach
The Chinese language, we are always told, sees an opportunity in every crisis. So must we. The flip-side of the enormous economic cost of smoking is an opportunity to generate equally large benefits for our society and our economy by reducing it.

Our estimates suggest that a comprehensive approach to combating smoking -- combining the price increase anticipated in the President's budget and tighter restrictions on youth access and marketing -- would lead to dramatic reductions in youth smoking with substantial positive effects for our economy. Between them these measures would:

- reduce teenage smoking by 42 percent by 2003;
- reduce the number of youths smoking each year by as many as 1.6 million by 2003;
- lower the cumulative number of youths who smoke between now and 2003 by 3 million;

- and, ultimately, prevent roughly 1 million premature deaths.

Of course, even if smoking were eradicated tomorrow, the effects of past smoking would linger on. But the eventual gain to our economy would be substantial. Our longer term goal is to reduce teen smoking by a minimum of 60 percent in 10 years. Over time this should lead to benefits of 60 percent of the costs of smoking. That would mean a real gain to the economy of $78 billion.

To generate the same annual stream of real resources, we would have to invest $780 billion at a rate of return of 10 percent -- significantly more than the entire amount the American corporate sector invested in machinery and equipment last year.

The long run return to a reduction in smoking of this magnitude would come in a variety of ways:

- in the $27 billion that would have been spent treating smoking-related diseases that can now be spent on other medical priorities -- or anything else;
- in the $2.4 billion freed from meeting avoidable costs due to smoking while pregnant;
- in the $300 million that will not be spent mending the damage caused by smoking-induced fires and $300 million in additional output produced on the days that smokers would previously have been off sick;
- and the $48 billion in reclaimed productive capacity due to so many longer, more productive working lives.

While our main purpose is furthering the public health, we should not forget that comprehensive legislation consistent with the President's proposals would also make it possible to make critical public investments in our nation's health and other pressing priorities. These include:

- funding research into tobacco-related and other diseases through the National Institutes for Health and a cancer clinical trial demonstration project for Medicare beneficiaries;
- providing support for smoking prevention efforts by the Centers for Disease Control and smoking cessation programs;
- strengthening the FDA's enforcement programs and supporting America's tobacco farmers;
- promoting State child care and development programs, efforts to reduce class sizes and Medicaid child outreach reforms.

IV. The Challenge Internationally

I have concerned myself with the consequences of smoking for the United States. But it will be critical in all these efforts to bear in mind the global perspective. We must not forget the threat posed to people in developing countries, many who do not yet smoke but soon will if recent trends in global cigarette sales continue. On present patterns of tobacco use, the World Bank has estimated that one in ten deaths worldwide in 2025 will be attributable to smoking-related illnesses -- more than the predicted deaths due to AIDS, Tuberculosis and complications in childbirth combined.

Just what steps the United States can take here is something that will have to be debated in the context of legislation. Clearly it is appropriate that as part of development assistance efforts we work with and support other countries as they find the right approach to discouraging marketing of cigarettes to young people and to discouraging young people from starting to smoke. But there are other important questions as well.

We need to work with the multilateral development banks to ensure that their economic development activities are not having adverse effects by promoting the production and distribution of tobacco products. And we will need carefully to consider our own commercial development: on the one hand, we do not want to peddle dangerous products; on the other, American companies should not be put at a disadvantage in markets that are going to exist whether they participate in these markets or not.

V. An Historic Opportunity

The mix of historic achievement -- and opportunity -- that I described earlier with regard to the American economy is nowhere more apparent than in our health sector. Here and around the country, we are making enormous strides to solve previously unsolvable medical problems. And we are doing this while effectively restraining the underlying growth in costs that once threatened the stability of the system. But here especially, we can no longer turn a blind eye to the one area where the solution is so straightforward -- reducing smoking.

Just in the time that I have been speaking to you, about 40 children have started smoking, and 14 of them will die prematurely as a result. We cannot afford to delay one child longer. By passing comprehensive legislation that meets the targets laid out in our budget, in five years' time around 40 percent fewer American children will be smokers. In 10 years' time, the number will have been more than halved -- and down the road, roughly 1.5 million fewer will have died prematurely as a result of smoking. Finally, nearly $80 billion per year that our economy would have lost with those lives can instead be used to add to their lives and the lives of other Americans. The stakes are high. The right path is clear.

The Economic Costs of Smoking in the United States

Source of Cost	Cost of Smoking in U.S. ($1998 billions)	Possible Long Run Benefits from Legislation ($1998 billions)
Adult Medical Spending	$45	$27
Pregnancy & Neonatal	$4	$2.4
Smoking-Induced Fires	$0.5	$0.3
Lost Workdays	$0.5	$0.3
Lost Output from Shortened Work Lives	$80	$48
TOTAL SOCIAL COSTS OF SMOKING AND BENEFITS OF SMOKING REDUCTIONS	**$130**	**$78**
Additional Potential Costs		
Value of Reduced Mortality	$120	$72
Possible Productivity Reductions for Smokers	$50-$125	$20-$75

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
March 24, 1998

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 2-YEAR NOTES

Interest Rate:	5 1/2%	Issue Date:	March 31, 1998
Series:	AB-2000	Dated Date:	March 31, 1998
CUSIP No:	9128274A7	Maturity Date:	March 31, 2000
STRIPS Minimum:	$400,000		

High Yield: 5.500% Price: 100.000

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 93%.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 35,263,735	$ 12,798,250
Noncompetitive	1,215,471	1,215,471
PUBLIC SUBTOTAL	36,479,206	14,013,721
Federal Reserve	1,758,220	1,758,220
Foreign Official Inst.	1,390,000	1,390,000
TOTAL	$ 39,627,426	$ 17,161,941

Median yield 5.491%: 50% of the amount of accepted competitive tenders was tendered at or below that rate.

Low yield 5.450%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

RR-2322

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

MEDIA ADVISORY
March 24, 1997

Contact: Dan Israel
(202) 622-2960

SUMMERS TO DELIVER TOBACCO ADDRESS AT GWU

Deputy Treasury Secretary Lawrence H. Summers will deliver a speech on the economic case for a comprehensive tobacco settlement to the George Washington University School of Public Health and Health Services on Wednesday, March 25. The speech will take place at 10:00 am in Ross Hall, located at 2300 Eye Street, N.W.

DATE:	Wednesday, March 25, 1998
TIME:	10:00 a.m.
PLACE:	Ross Hall, Room 117 2300 Eye Street, N.W. Washington, D.C.

-30-

RR-2323

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
March 26, 1998

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 52-WEEK BILLS

Term:	364-Day Bill
Issue Date:	April 02, 1998
Maturity Date:	April 01, 1999
CUSIP Number:	912795BV2

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate 1/	Price
Low	5.100%	5.380%	94.843
High	5.110%	5.391%	94.833
Average	5.110%	5.391%	94.833

Tenders at the high discount rate were allotted 67%.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 35,027,275	$ 8,700,125
Noncompetitive	1,092,037	1,092,037
PUBLIC SUBTOTAL	36,119,312	9,792,162
Federal Reserve	5,495,000	5,495,000
Foreign Official Inst.		
Refunded Maturing	1,237,000	1,237,000
Additional Amounts	203,000	203,000
TOTAL	$ 43,054,312	$ 16,727,162

1/ Equivalent coupon-issue yield.

RR-2324

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
Text as Prepared for Delivery
March 26, 1998

CREDIT UNIONS

Testimony of the Honorable Richard S. Carnell
Assistant Secretary of the Treasury
for Financial Institutions

Before the Committee on Banking, Housing, and Urban Affairs
United States Senate

March 26, 1998

RR-2325

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

SUMMARY

The Treasury's testimony deals with two main topics: (1) the safety and soundness reforms recommended in our recent Congressionally mandated report on credit unions; and (2) the common bond of credit union membership.

THE TREASURY'S RECOMMENDED SAFETY AND SOUNDNESS REFORMS

Our report recommended that Congress take several steps to make federally insured credit unions and the National Credit Union Share Insurance Fund even safer, sounder, and more resilient.

Capital Requirements and Prompt Corrective Action

Credit unions hold over $300 billion in federally insured deposits. But unlike all other federally insured depository institutions, they are not currently subject to capital requirements or to a system of prompt corrective action.

We recommend that Congress require federally insured credit unions to have 6 percent net worth to total assets in order to be in good standing. We also recommend requiring credit unions to set aside, as retained earnings, a small percentage of their gross income if they have less than 7 percent net worth. Credit unions' balance sheets indicate that credit unions themselves recognize the wisdom of maintaining such capital levels. Of the federally insured credit unions operating at the end of 1996, 96 percent had more than 6 percent net worth, and those credit unions held 98 percent of total credit union assets.

We further recommend that Congress establish a system of prompt corrective action for credit unions. This system would be a streamlined version of that currently applicable to all FDIC-insured institutions, and would be specifically tailored to credit unions as not-for-profit, member-owned cooperatives.

Other Capital-Related Reforms

We recommend that Congress direct the NCUA to develop an appropriate risk-based capital requirement for complex credit unions. This risk-based requirement would take account of risks that the simple 6 percent net worth requirement does not adequately cover -- risks that may be appreciable only at a small subset of credit unions.

We also recommend that Congress direct the NCUA to require federally insured credit unions to deduct from their net worth for purposes of regulatory capital requirements and prompt corrective action, certain investments in equity securities issued by corporate credit unions. The goal is for each level of the credit union system to have sufficient capital for the risks undertaken at that level and, more specifically, to help ensure that a corporate credit union's losses do not cascade to its member credit unions.

Reforms Involving the National Credit Union Share Insurance Fund

We propose the following reforms relating to the Share Insurance Fund:

- Requiring more timely and accurate calculation of the Fund's equity ratio -- i.e., the ratio of the Fund's reserves to the total amount of the deposits that the Fund insures -- the standard measure of the Fund's health. The NCUA's method of measuring the equity ratio generally overstates the reserves actually available.

- Not permitting distributions to dissipate the Fund's reserves when the Fund's ratio of high-quality, liquid net reserves to the total deposits that the Fund insures (the available-assets ratio) falls below 1 percent.

- Requiring federally insured credit unions with more than $50 million in total assets to adjust their 1 percent deposit in the Fund semi-annually (instead of just annually).

- Giving the NCUA some discretion to adjust the premium rate according to the Fund's financial needs.

- Imposing a premium if the Fund's equity ratio falls below 1.2 percent, in keeping with the NCUA's longstanding practice.

- Giving the NCUA discretion to let interest on the Fund's reserves increase the Fund's equity ratio to 1.5 percent from the current ceiling of 1.3 percent. This change would permit the Fund to accumulate additional investment earnings in good times that would increase its resiliency during economic downturns. The NCUA would remain free to distribute as dividends any reserves above 1.3 percent, or to use part of the Fund's earnings to increase the reserve ratio and distribute the rest as a dividend on credit unions' 1 percent deposit.

The Importance of Enacting These Safety and Soundness Reforms Now

Now is an excellent time to enact these safety and soundness safeguards -- with the economy strong and credit unions flourishing. Our proposed changes involve little cost or burden to credit unions today, yet they could pay enormous dividends in more difficult times.

Moreover, as credit unions increase in size and complexity and compete directly with banks and thrifts, Congress needs to ensure that comparable safeguards apply to credit unions' risk-taking. The safeguards applicable today fall short of being comparable. And if the ultimate outcome of the current debate over the common bond is to provide greater flexibility, allowing the continued emergence of larger, less closely knit credit unions, it will be all the more important to have adequate safeguards in place.

THE COMMON BOND OF CREDIT UNION MEMBERSHIP

General Principles

Between the polar-opposite outcomes of having no common bond requirement and requiring all members of a credit union to share a single, tightly defined common bond, are an array of possible policies. We suggest that Congress consider possible policies in light of the following principles:

1. Reaffirm Credit Unions' Role in Serving People of Modest Means

Credit unions have historically had a special role in serving people of modest means. The Federal Credit Union Act reflects this public purpose: it is an "Act . . . to make more available to people of small means credit for provident purposes." We believe that federal policy towards credit unions should continue to promote this objective.

2. Correct Perverse Incentives to Abandon Occupation- and Association-Based Federal Credit Union Charters

A stringent federal common bond requirement serves no public purpose if it merely prompts credit unions to switch to state charters with a looser common bond requirement (or none at all). Similarly, a stringent occupational or associational common bond requirement serves no public purpose if it simply prompts credit unions to switch to broad, geographically based charters. We believe that public policy should avoid creating perverse incentives to seek one type of credit union charter over another, particularly if the upshot is to encourage credit unions to select charters that weaken the affinity among their members.

3. Preserve a Meaningful Common Bond as a Characteristic of Credit Unions

We see the common bond requirement as a distinguishing characteristic of credit unions -- one that helps set them apart from banks and thrifts, and that reinforces their other defining characteristics: their cooperative structure, democratic governance, not-for-profit orientation, and public purpose of serving people of modest means. Weakening the common bond might well put strain on credit unions' cooperative, not-for-profit orientation, including their willingness to pay special attention to members of lesser means.

4. Assure Safety and Soundness

With the rise of larger, more impersonal credit unions, formal safeguards and effective supervision become all the more important.

5. Take Account of Market Dynamics

Economies of scale in providing technology-based services, downsizing, the large number of workers at firms too small to support their own credit union, and the safety and soundness benefits of diversification lend weight to permitting credit unions to expand beyond a single membership group. Yet other market factors -- such as the credit risk-reducing influence of a sense of affinity, and the dubious incentives credit union managers may have to increase the size of their credit unions -- suggest limits on the economic case for attenuating the common bond requirement. Flexibility on the common bond requirement should be tempered by the other principles outlined here.

6. Protect Existing Credit Union Members and Membership Groups

In adding new membership groups pursuant to NCUA policy, credit unions acted in good faith. Disenfranchising existing credit union members or membership groups would not serve the public interest.

Next Steps

We look forward to working with the Committee to develop legislation dealing with the common bond requirement. We suggest that such legislation should: grandfather all existing credit union members and membership groups added before the Supreme Court ruling, and permit such membership groups to add new members; include the safety and soundness reforms outlined in the Treasury report; and preserve a meaningful common bond requirement while providing reasonable flexibility for credit unions to include additional groups within their membership.

TABLE OF CONTENTS

CREDIT UNIONS

Testimony of Richard S. Carnell
Assistant Secretary of the Treasury

Before the Committee on Banking, Housing, and Urban Affairs
United States Senate

March 26, 1998

Mr. Chairman, Senator Sarbanes, Members of the Committee.

I appreciate this opportunity to present the Treasury's views on two topics involving credit unions. First, the safety and soundness reforms recommended in the Treasury's recent Congressionally mandated report on credit unions. Second, the common bond of credit union membership, including the implications of the decision rendered by the Supreme Court last month.

As not-for-profit depository institutions, credit unions add something special to our financial system. They give their members an alternative, cooperative structure for depositing savings and obtaining credit and other financial services. The credit union ideal is one of mutual self-help.

I. THE TREASURY'S STUDY OF CREDIT UNIONS

By a statute proposed by Senator Bennett and ultimately enacted in September 1996, Congress required the Treasury to study and report on a series of issues involving credit unions (a list that did not, incidentally, include the common bond requirement). In preparing our report, we consulted widely with the National Credit Union Administration (NCUA), the four federal banking agencies, the major credit union, bank, and thrift trade associations, consumer groups, and credit union officials. We made on-site visits, and we sought and received public comments. As specifically required by Congress, we assembled an interagency team of experienced federal bank and thrift examiners to assist us in our evaluation of the ten largest corporate credit unions. We published our report last December.

A. THE TREASURY'S LEGISLATIVE RECOMMENDATIONS TO STRENGTHEN THE SAFETY AND SOUNDNESS OF THE CREDIT UNION SYSTEM

Our report found that credit unions and their deposit insurance fund appear to be in strong financial condition. We did make several recommendations for Congressional action to strengthen the long-term safety and soundness of the credit union system.

1. Capital Requirements and Prompt Corrective Action

Strong capital requirements and prompt corrective action are foundations of modern safety and soundness supervision of federally insured depository institutions. Capital requirements help ensure that such institutions have a sufficient buffer to absorb unforseen losses without in turn imposing losses on depositors or the deposit insurance fund.[1] Prompt corrective action is a capital-based approach to supervision aiming to resolve capital deficiencies before they grow into large problems. As a federally insured depository institution's capital declines below required levels, an increasingly more stringent set of safeguards applies. The goal is to minimize (and, if possible, avoid) losses to the deposit insurance fund. Prompt corrective action has applied to all FDIC-insured depository institutions since 1992, and the results have been good.

Although credit unions hold over $300 billion in federally insured deposits, they are not currently subject to capital requirements in the sense of needing to have a given ratio of capital to assets in order to be in good standing. Credit unions must set aside as regular reserves (a form of retained earnings) a small percentage of their gross income until their regular reserves reach a level approximating 4 percent of total assets. But this is not a capital requirement; credit unions need not reach or maintain that level. The rule in question is perhaps best described as an earnings-retention requirement.

---

[1] Requiring depository institutions to have adequate capital also helps counteract the moral hazard of deposit insurance (i.e., the tendency of deposit insurance to permit or encourage insured depository institutions to take excessive risks -- risks that they would not take in a free market). Capital is like the deductible on an insurance policy: the higher the deductible, the greater the incentive to avoid loss. Adequate capital gives a depository institution's owners incentives compatible with the interests of the insurance fund because the fund absorbs losses only after the institution has exhausted its capital and thus eliminated the economic value of the owners' investment.

Nor are credit unions subject to a system of prompt corrective action. The NCUA has informal policies analogous to some aspects of such a system, but has no regulations or even formal guidelines for taking corrective action regarding a troubled credit union.

We recommend that Congress require federally insured credit unions to have 6 percent net worth to total assets in order to be in good standing.[2] We also recommend that credit unions set aside, as retained earnings, a small percentage of their gross income if they have less than 7 percent net worth.

Credit unions' balance sheets indicate that credit unions themselves recognize the wisdom of maintaining such capital levels. Of the federally insured credit unions operating at the end of 1996, 96 percent had more than 6 percent net worth, and those credit unions held 98 percent of total credit union assets. Moreover, 93 percent of credit unions had more than 7 percent net worth, and those credit unions held 93 percent of total credit union assets.

We also recommend that Congress establish a system of prompt corrective action for credit unions. This system would be a streamlined version of that currently applicable to all FDIC-insured institutions, and would be specifically tailored to credit unions as not-for-profit, member-owned cooperatives. It would thus, for example, not include provisions keyed to the existence of capital stock, since credit unions have no capital stock.

Such a system of prompt corrective action would protect the National Credit Union Share Insurance Fund and the taxpayers who stand behind it; it would also benefit credit unions and the credit union system. It would reinforce the commitment of credit unions and the NCUA to resolve net worth deficiencies promptly, before they become more serious. It would promote fair, consistent treatment of similarly situated credit unions. It should reduce the number and cost of future credit union failures. In so doing, it should conserve the resources of the Share Insurance Fund, make the Fund even more resilient, and make more money available for lending to credit union members. And it would respect and complement the cooperative character of credit unions.

---

[2] This statutory requirement would not apply to new credit unions that had not existed for a given number of years or reached a specified asset size.

2. Other Capital-Related Reforms

a. Risk-Based Capital Requirement for Complex Credit Unions

We recommend that Congress direct the NCUA to develop an appropriate risk-based capital requirement for complex credit unions. This risk-based requirement would supplement the simple 6 percent net worth requirement and could take account of risks -- such as interest-rate risk or contingent liabilities -- that may be appreciable only at a small subset of credit unions.

b. Treatment of Certain Equity Investments in Corporate Credit Unions

Corporate credit unions are specialized financial institutions that provide services to, and are cooperatively owned by, their member credit unions. They serve their members primarily by lending or otherwise investing their member credit unions' excess funds. They also provide services comparable to those offered by bankers' banks or to the correspondent services that large commercial banks traditionally provided to smaller banks. U.S. Central Credit Union is a corporate credit union serving 38 of the 40 other corporate credit unions.

The three-tier cooperative structure of the credit union system -- regular credit unions, corporate credit unions, and U.S. Central -- creates an interdependence risk among the various levels. Specifically, a credit union's deposits at its corporate credit union, and its equity investment in that institution, are assets on its books. At the same time, the credit union's corporate credit union carries these funds on its balance sheet as deposits (largely uninsured) and capital, respectively. If a corporate credit union were to fail, its member credit unions could face losses on their deposits or equity investments, which would reduce their own capital. This interdependence means that each level of the credit union system must have sufficient capital for the risks undertaken so as not to pose a risk of losses cascading to the level below it.

Accordingly, we recommend that federally insured credit unions deduct from their net worth (for purposes of regulatory capital requirements and prompt corrective action) paid-in capital issued by a corporate credit union and some portion of member capital accounts at a corporate credit union. Paid-in capital is the lowest priority instrument issued by a corporate credit union. If the corporate credit union were to fail, holders of paid-in capital would have to stand in line behind all creditors, all depositors, and all other equity holders; they would receive nothing unless all these other claimants received payment in full. Membership capital is the second lowest priority instrument issued by a corporate credit union. Holders would stand in line behind all creditors, all depositors, and all equity holders other than holders of paid-in capital.

3. Reforms Related to the National Credit Union Share Insurance Fund

We propose a series of reforms relating to the National Credit Union Share Insurance Fund.

First, we recommend requiring more timely and accurate calculation of the Fund's equity ratio -- i.e., the ratio of the Fund's reserves to the total amount of the deposits that the Fund insures -- the standard measure of the Fund's health. We are concerned that the NCUA's method of measuring the equity ratio generally overstates the reserves actually available. The NCUA calculates the equity ratio monthly by dividing the Fund's reserve balance for the month by the previous year-end total of insured deposits. Thus each year-end equity ratio is calculated using a denominator that may be up to 12 months old, which tends to inflate the ratio. For example, at year-end 1996, the Share Insurance Fund had $3.4 billion in reserves and insured $275.5 billion in deposits, which implied an equity ratio of 1.24 percent. However, the NCUA calculated the Fund's year-end 1996 equity ratio as 1.3 percent by dividing the year-end 1996 total Fund reserves by the year-end 1995 total insured deposits.

Because the NCUA must, under current law, distribute dividends to member credit unions whenever the Share Insurance Fund's equity ratio exceeds 1.3 percent, the NCUA's procedure has led it to pay dividends when the Fund's equity ratio, properly measured, was actually less than 1.3 percent. Paying dividends under such circumstances dissipates the Fund's reserves without good reason. We accordingly recommend that Congress require the NCUA to correct this non-contemporaneous measurement of the equity ratio.

Second, we recommend not permitting distributions to dissipate the Fund's reserves when the Fund's ratio of high-quality, liquid net reserves to the total deposits that the Fund insures (the available-assets ratio) falls below 1 percent. The equity ratio, unlike the available assets ratio, does not reflect the actual composition of the Share Insurance Fund's assets. When credit unions come under stress (e.g., during an economic recession), illiquid assets acquired from failed or troubled institutions will tend to increase at the expense of liquid assets -- leaving the Fund less able to provide cash assistance to other ailing credit unions. We recommend that Congress require the Share Insurance Fund to maintain an available assets ratio of 1.0 percent of insured deposits. Should the available assets ratio fall below this level, the NCUA would not be permitted to pay dividends even if the Fund's equity ratio were to exceed 1.3 percent.

Third, we recommend requiring federally insured credit unions with more than $50 million in total assets to adjust their 1 percent deposit in the Fund semi-annually (instead of just annually). Such institutions account for just 12 percent of all credit unions but hold 76 percent of total credit union deposits. Semi-annual adjustments by such credit unions will help ensure that the 1 percent deposit keeps pace with their deposit growth.

Fourth, in place of the current rule that fixes any insurance premium at 1/12 of 1 percent of insured shares, we recommend giving the NCUA some discretion to adjust the premium rate according to the Fund's financial needs.

Fifth, we recommend imposing a premium if the Fund's equity ratio falls below 1.2 percent, in keeping with the NCUA's longstanding practice.

Sixth, we recommend giving the NCUA discretion to let interest on the Fund's reserves increase the Fund's equity ratio to 1.5 percent. The Federal Credit Union Act currently imposes a rigid 1.3 percent ceiling on the Fund's reserve ratio. The change proposed here would permit the Fund to accumulate additional investment earnings in good times that would increase its resiliency during economic downturns. This flexibility would likewise better enable the NCUA to protect the Fund -- as well as protect credit unions' 1 percent deposit -- from possible future losses. The NCUA would, of course, remain free to distribute as dividends any reserves above 1.3 percent (and any interest earned on those reserves). It could also use part of the earnings to increase the reserve ratio and distribute the rest.

B. Other Pertinent Recommendations

1. Retaining the NCUA's Role in Administering the Share Insurance Fund

Congress required us to evaluate the potential costs and benefits of having some entity other than the NCUA administer the Share Insurance Fund. Some potential may exist for conflict between the NCUA's mission as a charterer or regulator of credit unions and the NCUA's responsibilities for the Share Insurance Fund. However, in our view, any such potential conflict is best handled by applying a system of prompt corrective action. Such a system would impose an important and highly constructive discipline on the NCUA's supervisory and insurance functions. This discipline should, to a significant degree, offset any potential for conflicts of mission. Accordingly, we recommend against moving the Share Insurance Fund out of the NCUA.

2. Continuing to Permit Credit Unions to Treat Their 1 Percent Deposit in the Share Insurance Fund as an Asset

Congress also required us to evaluate whether the 1 percent deposit that federally insured credit unions have made into the Share Insurance Fund should continue to be treated as an asset on credit unions' books or whether credit unions should, instead, expense that deposit. Let me first take a moment to explain how the 1 percent deposit works, and more generally, how the Share Insurance Fund is financed.

Under current law, each federally insured credit union must maintain on deposit in the Share Insurance Fund an amount equal to 1 percent of the credit union's insured deposits. Thus, for example, if the credit union has $50 million in insured deposits, it must keep $500,000 on deposit in the Fund. The credit union's deposit in the Fund counts as an asset on the credit union's books. It also counts as reserves of the Fund, and is available to protect depositors at failed credit unions. Because this accounting treatment involves some double-counting of the same money, some have called for credit unions to write off the 1 percent deposit, so that it would no longer count as an asset on their books.

We concluded that better ways of protecting the Fund are available. Three reforms that I outlined earlier are particularly relevant here: the 6 percent capital standard; the requirement that credit unions with less than 7 percent net worth set aside some of their income as retained earnings; and a system of prompt corrective action. We believe that these measures, coupled with existing safeguards, would fully offset any double counting and assure adequate protection of the Fund. By contrast, requiring a writeoff of the 1 percent deposit would not provide nearly as much protection. Accordingly, we recommend against requiring credit unions to write off their 1 percent deposit.

C. THE IMPORTANCE OF ENACTING THESE SAFETY AND SOUNDNESS REFORMS NOW

Over the past two decades, most key legislation regarding the safety and soundness of federally insured depository institutions has been enacted in time of crisis. The Depository Institution Deregulation and Monetary Control Act of 1980, the International Lending Supervision Act of 1983, the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, and the FDIC Improvement Act of 1991 all fit this pattern. Because Congress waited to act until it faced a crisis, the changes involved, although ultimately beneficial, increased the short-term stress on many depository institutions.

A better approach is to enact needed safety and soundness safeguards while times are good. Such safeguards will reduce the potential for a future crisis. And depository institutions can make any necessary adjustments from a position of strength, with appropriate transition periods.

Congress has such an opportunity to act now. Credit unions are flourishing. On average, their net worth exceeds 11 percent of total assets. And the Share Insurance Fund is fully capitalized. The changes we propose involve little cost or burden to credit unions today, yet they could pay enormous dividends in more difficult times.

Although most credit unions remain relatively small institutions with simple product offerings, a growing number are large and have extensive product offerings. These credit unions commonly compete head-on with other depository institutions. As credit unions increase in size and complexity -- competing directly with banks and thrifts and taking on similar financial risks -- policymakers need to ensure that comparable safeguards apply to credit unions' risk-taking. The safeguards applicable today fall short of being comparable. Moreover, if the ultimate outcome of the current debate over the common bond is to provide greater flexibility, allowing the continued emergence of larger, less closely knit credit unions, the safety and soundness enhancement traditionally provided by a tight common bond diminishes, and the incentives for growth and added risk-taking may increase.

We risk being unprepared for future problems if we do not act now to update applicable safety and soundness safeguards in light of a changing industry. It was just this lack of preparation that compounded taxpayer losses during the thrift crisis -- as the thrift industry changed, safeguards did not keep up with those changes.

II. THE COMMON BOND OF CREDIT UNION MEMBERSHIP

Let me now turn to the requirement that members of a credit union share a common bond.

In discussing this requirement, I will: describe what we at the Treasury believe to be the distinguishing characteristics of credit unions -- the features that set them apart from banks and thrifts; summarize the common bond requirement for federal credit unions; identify the key market dynamics that have prompted credit unions to pursue liberalization of the common bond requirement; set forth six principles that the Treasury believes should guide policy relating to the common bond requirement; and provide some general comments on what Congress may wish to consider in this area.

A. The Common Bond Requirement as a Distinguishing Characteristic of Credit Unions

Credit unions have several characteristics that, taken together, distinguish them from banks and thrifts.

First, credit unions are member-owned cooperatives. They do not issue capital stock, and instead derive their capital from accumulated retained earnings.

Second, credit unions generally rely on unpaid, volunteer boards of directors elected by, and drawn from, each credit union's membership.

Third, credit unions do not operate for profit.

Fourth, credit unions have a public purpose. As declared in the Federal Credit Union Act, this purpose involves "mak[ing] more available to people of small means credit for provident purposes." Of course, other depository institutions also operate under statutes that delineate public purposes, so the distinction here involves the emphasis on providing services affordable to people of modest means.

Fifth, credit unions generally have limitations on their membership -- limitations based on some affinity among members. These limitations are known as the common bond requirement. Thus, unlike other depository institutions, a credit union generally cannot serve just anyone from the general public.

We see the common bond requirement as a distinguishing characteristic of credit unions -- one that helps set credit unions apart from other depository institutions. In our view, the common bond requirement is not merely a convenient organizing principle. The affinity among a credit unions' members, as reflected in a common bond, reinforces credit unions' other defining characteristics.

B. THE DIFFERENT TYPES OF COMMON BONDS

The Federal Credit Union Act of 1934 limits "federal credit union membership . . . to groups having a common bond of occupation or association, or to groups within a well-defined neighborhood, community, or rural district." Thus, the Act recognizes three types of credit unions: those based on a common bond of occupation or association and those based on a well-defined geographic community. Most credit unions have traditionally had occupational or associational common bonds, although community credit unions have become more common in recent years.

In an occupational common bond, a credit union's members share a common employer. The NCUA has required that occupational fields of membership include a geographic definition.

In an associational common bond, a credit union's members come from some recognized association. The NCUA's policy is to charter associational credit unions at the lowest organizational level that is economically feasible. The policy permits a charter for a widely dispersed membership only where such a charter is clearly demonstrated to be in the best interests of the associations's members and credit unions.

The Federal Credit Union Act restricts a community credit union to "a well-defined neighborhood, community, or rural district." The NCUA has interpreted this to mean a single, geographically well-defined area where residents interact. Generally, the NCUA recognizes four types of affinity on which to base a community credit union: affinity based on living, worshiping, studying, or working in the community.

C. MARKET DYNAMICS

Let us briefly consider the market forces that encourage credit unions to expand beyond their original membership group. We have identified four types of forces. They involve technology, demographics, safety and soundness, and management.

1. Technological Factors

Many credit unions -- to meet customer demand and compete with other depository institutions -- now offer such technology-based services as ATMs and computer and telephone banking. The information and communications technology needed to provide such services involves substantial fixed costs. Adding more membership groups makes such investments more economical by allowing a credit union to spread these fixed costs over more members.

2. Demographic Factors

Demographic factors also contribute to credit unions' desire to add new membership groups. For example:

- Worker mobility today makes credit unions' membership base less stable than in the past, when many credit union members had a career-long relationship with their employer and their credit union.

- Downsizing or closings at manufacturing firms, military bases, and other large employers have shrunk the membership base of many occupational credit unions.

- NCUA policy requires a new credit union to have at least 500 persons eligible for membership, and some believe that the economics of starting a credit union today may actually require 1,000 or more such persons. Thus people who work at firms with fewer than 1,000 workers may not, as a practical matter, be able to form their own credit unions.

3. Safety and Soundness Factors

A tight common bond requirement can have mixed effects on a credit union's safety and soundness.

The affinity among members sharing a single, focused common bond helps limit loan defaults. In a credit union with a single common bond, a member would be less likely to default on a loan commitment because of the effect that the default would have on friends, neighbors, or coworkers, and because of the shame associated with the default. Because the credit union is a not-for-profit cooperative, it may also be more willing to develop an acceptable workout plan than would an impersonal, profit-maximizing financial institution.

On the other hand, the more that a credit union's membership shares a common bond of employment or otherwise has similar exposure to plant closings or other economic risks, the less diversified its exposure to credit risk. Diversifying the credit union's membership base tends to make the credit union more resilient in the face of problems experienced by any one local employer. Plant closings during the late 1970s and early 1980s led to numerous credit union failures because an individual plant typically sponsored a credit union and the credit union's membership consisted of the plant's workers. Such failures played a key role in prompting the NCUA's 1982 policy change.

4. Managerial Factors

Managerial factors may create incentives for credit unions to grow by adding new membership groups. A credit union board of directors seeking to attract high-quality, professional managers may find it easier to do so if the credit union is large, or has growth opportunities. Moreover, as credit unions are non-profit cooperatives, they do not remunerate their managers based on profit or stock performance. Instead, management compensation often reflects a credit union's size and product offerings. This may give managers an incentive to increase the credit union's size, and adding new membership groups would be an obvious method for doing so.

D. General Principles

Between the polar-opposite outcomes of having no common bond requirement and requiring all members of a credit union to share a single, tightly defined common bond, are an array of possible policies. We suggest that Congress consider possible policies in light of the following principles:

1. Reaffirm Credit Unions' Role in Serving People of Modest Means

Credit unions have historically had a special role in serving people of modest means. The Federal Credit Union Act reflects this public purpose: it is an "Act . . . to make more available to people of small means credit for provident purposes."

We believe that federal policy towards credit unions should continue to promote this objective. Credit unions have played, and should continue to play, an important role in serving the underserved. Low-income credit unions have charters that specifically reflect their mission of serving the underserved. But more broadly, credit unions help make financial services more affordable for (and in some cases, geographically available to) people of modest means.

2. Correct Perverse Incentives to Abandon Occupation- and Association-Based Federal Credit Union Charters

In response to a 1996 injunction against federal credit unions adding new membership groups, hundreds of federal credit unions have moved to convert to state charters or to community-based federal charters. Yet a stringent federal common bond requirement serves no public purpose if it merely prompts credit unions to switch to state charters with a looser common bond requirement (or none at all). Similarly, a stringent occupational or associational common bond requirement serves no public purpose if it simply prompts credit unions to switch to broad, geographically based charters (e.g., anyone who lives, works, or worships in Fairfax County, Virginia) with less real affinity than their old occupation or association-based charters. Left unchanged, the Supreme Court's ruling will tend to produce such perverse results.

The debate over the common bond requirement has thus far centered on federal credit unions. Current federal law imposes no common bond requirement on state-chartered credit unions (although some states choose to tie their own requirements to federal law). Yet state-chartered credit unions receive essentially the same benefits as federal credit unions, including federal deposit insurance and exemption from federal income taxation. We believe that public policy should avoid creating perverse incentives to seek one type of credit union charter over another, particularly if the upshot is to encourage credit unions to select charters that weaken the affinity among their members.

3. Preserve a Meaningful Common Bond as a Characteristic of Credit Unions

As I mentioned earlier, we see the common bond requirement as a distinguishing characteristic of credit unions, and one that reinforces credit unions' other characteristics.[3] A sense of affinity among members encourages credit unions to serve all their members, even those whose business may be unremunerative. For example, a hallmark of credit unions has been their willingness to make small unsecured loans -- loans so small that banks generally have little interest in the business. Yet the less members have a sense of affinity with one another, the less willing they may be to maintain such "unprofitable" services in the face of other opportunities. The more impersonal a credit union becomes -- and the more its members see each other as strangers -- the less the credit union is likely to distinguish itself from other depository institutions. A lack of meaningful membership restrictions may make credit unions highly competitive and flexible, but may also make them increasingly like banks operating under another name.

One cannot be certain in advance what effect weakening the common bond would have on credit unions' distinctive character. However, reducing the affinity among credit union members might well put strain on credit unions' cooperative, not-for profit orientation, including their willingness to pay special attention to members of lesser means (who may be relatively costly to serve).

---

[3] The common bond is widely recognized as a characteristic of credit unions. The International Credit Union Operating Principles of the World Council of Credit Unions (an affiliate of the Credit Union National Association), declare that "membership in a credit union is voluntary and open to all within the accepted common bond of association." These operating principles "are founded in the philosophy of cooperation and its central values of equality, equity and mutual self-help." This suggests that the World Council sees a connection between credit unions' values and an operating environment in which credit union members share a common bond.

4. Assure Safety and Soundness

Since credit unions serve an important role for many Americans, especially those of modest means -- and since federal deposit insurance protects the $300 billion in credit union deposits -- public policy should help assure the safety and soundness of credit unions. As credit unions grow larger and more impersonal, formal safeguards and effective supervision become all the more important.

5. Take Account of Market Dynamics

Most of the market dynamics described earlier justify giving credit unions reasonable flexibility to move beyond a single common bond. To recapitulate: economies of scale in providing technology-based services, downsizing, the large number of workers at firms too small to support their own credit union, and the safety and soundness benefits of diversification lend weight to permitting credit unions to expand beyond a single membership group. Yet other market factors -- such as the credit risk-reducing influence of a sense of affinity, and the dubious managerial incentives for growth -- suggest limits on the economic case for attenuating the common bond requirement. Flexibility on the common bond requirement should be tempered by the other principles I have outlined.

6. Protect Existing Credit Union Members and Membership Groups

Since 1982, the NCUA has permitted credit unions to add unrelated membership groups to existing credit unions. Both the NCUA and the credit unions involved operated in good faith. Although the Supreme Court has found such actions to have gone beyond the bounds of the Federal Credit Union Act, we believe that disenfranchising existing credit union members or membership groups would not serve the public interest.

E. Next Steps

Congress has time this year to consider carefully the proper course of future policy in this area. Whatever policy change Congress makes regarding the common bond issue will affect credit unions for many years to come, and will also affect the dynamic between credit unions and other financial institutions.

The Treasury looks forward to working with the Committee to develop legislation dealing with the common bond requirement. To begin, we would like to suggest that such legislation should: grandfather all existing credit union members and membership groups added before the Supreme Court ruling, and permit such membership groups to add new members; include the safety and soundness reforms outlined in the Treasury report; and preserve a meaningful common bond requirement while providing reasonable flexibility for credit unions to include additional groups within their membership.

III. CONCLUSION

In closing, let me summarize our four main conclusions and recommendations.

A deliberate, thoughtful approach is needed. We should keep in mind that our actions will affect credit unions, their members, and others for years to come.

Safety and soundness reforms should be part of any credit union legislation. In particular, a system of prompt corrective action, which has been so successful in bank and thrift supervision, should be enacted for credit unions.

Credit unions should be permitted to grow, and consumer access to credit unions should be enhanced in a manner consistent with the principles outlined here.

To-date, the common bond debate has largely been framed as an all-or-nothing contest in which one side wins at the expense of the other. An appropriate balancing of legitimate but competing interests requires careful deliberation and something other than a winner-take-all outcome.

We look forward to working with the Committee on these issues. I would be pleased to answer questions.

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
March 25, 1998

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 5-YEAR NOTES

Interest Rate:	5 1/2%	Issue Date:	March 31, 1998
Series:	E-2003	Dated Date:	March 31, 1998
CUSIP No:	9128274B5	Maturity Date:	March 31, 2003
STRIPS Minimum:	$400,000		

High Yield: 5.620% Price: 99.483

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 59%.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 22,292,301	$ 10,682,900
Noncompetitive	329,598	329,598
PUBLIC SUBTOTAL	22,621,899	11,012,498
Federal Reserve	1,385,000	1,385,000
Foreign Official Inst.	1,764,000	1,764,000
TOTAL	$ 25,770,899	$ 14,161,498

Median yield 5.592%: 50% of the amount of accepted competitive tenders was tendered at or below that rate.

Low yield 5.550%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

RR-2326

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

UNDER SECRETARY

March 26, 1998

The Honorable Newt Gingrich
Speaker
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Speaker:

In Secretary Rubin's letter to you on March 16, 1998, he stated that the Treasury Department staff would subsequently detail our concerns with the House Republican Leadership draft of H.R. 10, the Financial Services Act of 1998. Accordingly, I have enclosed a document explaining our principal concerns with the draft bill.

Sincerely,

John D. Hawke, Jr.
Under Secretary for Domestic Finance

Enclosure

cc: The Honorable Richard K. Armey
The Honorable John A. Boehner
The Honorable Tom Bliley
The Honorable James A. Leach
The Honorable Marge Roukema
The Honorable Michael G. Oxley
The Honorable Richard A. Gephardt
The Honorable John D. Dingell
The Honorable John J. LaFalce
The Honorable Bruce F. Vento

RR-2327

THE TREASURY'S PRINCIPAL CONCERNS ABOUT H.R. 10

The Financial Services Act of 1998
As Proposed by the House Republican Leadership

March 26, 1998

THE TREASURY'S PRINCIPAL CONCERNS ABOUT H.R. 10

The Financial Services Act of 1998
As Proposed by the House Republican Leadership

March 26, 1998

Overview of Concerns

The Treasury Department has been a strong proponent of financial modernization. H.R. 10, the Financial Services Act of 1998 (the "bill"), would remove some archaic restrictions on our financial system. However, the bill falls short of meeting the overarching goal of financial services modernization: a financial services system that allows our nation's citizens and communities access to the widest possible array of financial products at the lowest possible cost. The bill thus denies consumers the benefits of an efficient, full-service financial services system.

For example:

- *The bill would force much financial innovation out of banks and their subsidiaries and into bank holding company affiliates.* These needless restrictions would hinder banks from responding to changes in the market. They would harm consumers by limiting the benefits of improved services, lower costs, increased access, and greater innovation that result from increased competition. Moreover, restrictions on where banks conduct activities and on what financial activities they conduct could impair safety and soundness by limiting a bank's ability to diversify and encouraging the bank to take on greater risks to maintain earnings. We believe that efficiency and market competition should determine the best form of organization.

- *The bill would undermine the Community Reinvestment Act by forcing financial innovation to occur in holding company affiliates.* A bank's capacity to help meet community credit needs depends on the size of its consolidated assets, which include assets in subsidiaries. By generally requiring innovation to occur outside the bank, the bill would result in the wholesale transfer of assets beyond the purview of the CRA -- thus denying communities important benefits they would otherwise have reaped from financial modernization.

- *The bill would seriously discriminate against the national bank charter* -- undermining the dual banking system and denying customers the full benefits of competition. For example, the bill would continue to encumber national banks' direct sales of insurance with a prohibition against selling insurance from places with more than 5,000 people, but would impose no such limit on state banks. National banks should not have to establish a subsidiary to do what many state banks can do directly.

- *The bill would strip away the benefits of the thrift charter without extending them to all depository institutions.* While the bill retains the federal thrift charter, the bill would deprive it of key benefits -- most notably the longstanding right of unitary thrift holding companies (companies that own a single thrift institution) to engage in any lawful business. Eliminating these broad affiliation rights and other attributes of the thrift charter would diminish competition in financial services and reduce consumer choices and benefits.

- *The bill would perpetuate rather than correct fundamental problems in the Federal Home Loan Bank System.* The System has structural flaws that raise serious policy and safety and soundness concerns. Changes in housing finance, technology, and the System's membership have rendered the System's 65-year-old structure obsolete, and raise questions about the allocation and effectiveness of the System's federal subsidy.

- *Many of the bill's insurance provisions are discriminatory and anti-competitive.* For example, the bill would not only fail to preclude states from discriminating against the insurance activities of banks and their affiliates, but would actually open up new avenues for such discrimination. It could impede innovation by permitting state insurance regulators to characterize a wide range of new financial products as "insurance" – even products whose banking or other features predominated. It would also overturn established principles of judicial deference to federal agencies – recognized by the Supreme Court in the Chevron case -- with respect to federal agency interpretations of critical matters relating to banking and insurance.

Subsidiaries of Banks

A bank may expand its financial activities through two basic structures: (1) a *subsidiary* of the bank itself; or (2) a *holding company affiliate* structure, in which a bank holding company owns both banks and other companies.

The choice between the subsidiary structure and the holding company affiliate structure should be a business decision, not a governmental dictate. Allowing the subsidiary structure has manifest advantages. First, a bank's conduct of new activities in a subsidiary diversifies the bank's assets and income -- providing a cushion against losses in other lines of business. Second, conduct of activities in a subsidiary may allow bank management to better direct the activity. Indeed, a recent OCC study concludes that overseas subsidiaries of banks earned higher returns and ran lower risks in conducting securities activities than did holding company affiliates.[1] Third, if the bank were to fail, the FDIC could sell the subsidiary and use the proceeds to protect depositors -- something it could not do if the activities were conducted in an affiliate. Taxpayers would thus be better insulated from loss. Finally, flexibility in organizational structure maximizes the potential for synergy with existing financial products -- better enabling market participants to meet their customers' full range of financial services needs. While for some companies an affiliate structure may be optimal, for others it may be the subsidiary structure.

---

[1] As noted below, current law allows banks to engage in securities activities overseas, but only through subsidiaries regulated by the Federal Reserve.

Moreover, forcing a financial services company -- as a prerequisite for engaging in new activities -- to transfer resources from its bank to its holding company would deplete the bank's resources, leave the bank's earnings less diversified, and thus increase risk to the deposit insurance funds.

Notwithstanding the benefits of the subsidiary structure, section 121 would severely restrict its use and instead dictate that new financial activities generally be conducted only in Federal Reserve-regulated holding company affiliates. Section 121 would specifically prohibit subsidiaries of national banks from conducting new financial activities as principal, other than activities permissible for the bank itself.

None of these restrictions on subsidiaries can be justified by safety and soundness or other policy concerns.

- As Chairman Helfer of the FDIC stated last year: "From a safety and soundness standpoint, both the holding company model and the bank subsidiary model are viable approaches to expanding the powers of banking organizations. The safeguards that are necessary to protect the insurance funds are similar for either structure. If these safeguards are in place and enforced, either approach will work to protect the insured bank and the deposit insurance funds." And: "With appropriate safeguards, allowing banks to generate earnings from activities in bank subsidiaries lowers the probability of failure. Earnings from bank subsidiaries provide greater protection for the insurance funds than do earnings from activities in bank holding company affiliates, because the earnings of the subsidiary accrue to the benefit of the insured bank parent. This is because diversification often leads to less volatile earnings."

- The Banking Committee bill required a bank to remain well-capitalized after deducting any investment in a subsidiary engaged in bank-impermissible activities from its regulatory capital. Thus, the bank could lose its entire investment in the subsidiary and still remain well capitalized. The bills also required any extensions of credit from the bank to such a subsidiary to conform to the inter-affiliate lending limits of sections 23A and 23B of the Federal Reserve Act. Thus, a bank could not lend more than 10 percent of its capital to any one subsidiary, and could not lend more than 20 percent of its capital to all its subsidiaries and affiliates combined. With these protections in place, a bank's potential exposure to a subsidiary should not exceed its exposure to an affiliate.[2]

- Subsidiaries of banks (including national banks) have long engaged *overseas* in underwriting and dealing in securities, venture capital, merchant banking, and other financial activities. These so-called Edge Act subsidiaries have a clear record of success. Indeed, the Federal Reserve, which regulates these subsidiaries, on December 18, 1997 proposed a significant expansion in the type and amount of securities activities in which such subsidiaries may engage.

- Subsidiaries of state nonmember banks (regulated by the FDIC) and subsidiaries of thrifts (regulated by the OTS) already successfully engage in activities not permitted to their parent depository institutions.

Proponents of allowing new financial activities to be conducted only in holding company affiliates have contended that only the affiliate form can effectively prevent banks from transferring to these activities any federal subsidy they receive from deposit insurance. There is no merit to this contention.

- Even assuming that such a subsidy exists,[3] the argument completely ignores the effect of requiring a capital deduction and limiting extensions of credit (as the Banking Committee bill did). The benefits of any subsidy that may exist may

---

[2] Put another way, a bank wishing to engage in new activities would face the same limits on how it could fund those activities under either structure. Under an affiliate structure, the bank could dividend capital up to its bank holding company, which would then invest that capital in a new non-bank affiliate. The bank could then lend to the affiliate in the amounts permitted by sections 23A and 23B. Under a subsidiary structure, the bank could invest in the subsidiary subject to a capital deduction -- leaving the bank in the same position as if it had paid a dividend -- and could then lend to the subsidiary only in the amounts permitted by section 23A and 23B. The safety and soundness of the bank is protected equally under each structure.

[3] The existence of a net subsidy has been questioned, particularly in view of the regulatory costs that accompany access to the federal safety net. To the extent that any such subsidy exists, it should be addressed by properly pricing deposit insurance and Federal Reserve services.

already be transferred to holding company affiliates through the up streaming of dividends by the bank, or through the absorption (in a consolidated financial statement) of lower returns in an affiliate that does not directly receive the subsidy. The capital "haircut" and limits on lending would allow a bank no more latitude to fund a subsidiary than an affiliate.

- Finally, this argument runs counter to a long-standing structure for U.S. banks operating overseas, under which the Federal Reserve permits subsidiaries of banks to underwrite and deal in securities and engage in merchant banking activities. There is no justification for denying to domestic subsidiaries of national banks the benefits accorded to overseas subsidiaries. Moreover, if one truly believes that the bank subsidiary structure allows an improper spreading of a subsidy, it would be a perverse rule that allowed the benefits of that subsidy to be conveyed only to foreign consumers while denying American consumers the benefits of this structure.

Effect on the Community Reinvestment Act

The Community Reinvestment Act (CRA) requires banks to serve the communities in which they operate. As a general matter, a bank's ability to meet credit needs depends on the size of its assets, including the assets of its subsidiaries. Permitting banks to conduct a full range of financial activities through subsidiaries would benefit communities by allowing them to share in the enhanced profitability of the banking system. As financial modernization allowed banks to grow, banks' commitment to the community would also be expected to grow.

Under H.R. 10, however, communities would not share in the benefits of financial modernization through the CRA. Because the bill generally requires financial services organizations to conduct new financial powers outside a bank or its subsidiaries, the assets devoted to these activities would be transferred beyond the reach of the CRA. Significantly, those arguing in favor of forcing new financial activities into holding companies do *not* propose that CRA follow these activities.

CRA has proven its worth. It is working to restore healthy markets in distressed communities. Nonprofit community groups estimate that since 1992 the private sector has pledged over $397 billion in loans going forward for community development, which represents over 89 percent of CRA pledges made since CRA's enactment in 1977. In 1996 alone, large commercial banks made nearly $18 billion in community development loans, in addition to the affordable housing loans reported under the Home Mortgage Disclosure Act and small business loans reported under CRA.

The remarkable progress that has been made in the areas of urban economic revitalization and financing for affordable housing and small businesses would be stymied if Congress now enacts a law that would restrict the ability of CRA-covered institutions to increase their assets through new financial activities. As we work to modernize the financial system, we need to make sure the financial system works for all communities.

Discrimination Against National Banks

Although examples of how H.R. 10 discriminates against national banks and the national charter are throughout this paper, we believe it is important to note the cumulative effect of this discrimination: to undermine the dual banking system through the wholesale disparagement of the national charter. The dual banking system has benefitted American consumers of financial services by stimulating innovation and competition, and retaining the vitality of the national charter is of great importance. Nonetheless:

- The bill would constrain the financial activities of OCC-regulated national bank subsidiaries far more strictly than FDIC- or Federal Reserve-regulated state bank subsidiaries, or even Federal Reserve-regulated Edge Act subsidiaries of national banks.

- The bill would continue to limit the conduct of national bank direct insurance agency activity to places with under 5,000 people while applying no parallel restriction on state banks.

- The bill would prohibit national banks and their subsidiaries, but not state banks and their subsidiaries, from conducting de novo insurance agency activities. National banks could conduct such activities only by acquiring existing agents.

- The bill would strip the national bank regulator of deference in interpreting key sections of the National Bank Act, thus creating uncertainty for banks relying on these interpretations and inviting costly litigation.

- The bill would impose limits on national bank sales of title insurance that would not apply to state banks.

Permissible Financial Activities

Section 103 would grant to the Federal Reserve exclusive jurisdiction to determine what new activities are "financial in nature" and therefore generally permissible for companies affiliated with banks. (By contrast, the Banking Committee bill would have created an inter-agency council for this purpose.) We oppose excluding this and future Administrations from this vital responsibility for the future direction of financial modernization. In the absence of an inter-agency council, such determinations about what constitutes a financial activity should be made jointly by the Federal Reserve and the Treasury.

Thrift Charter

While retaining the federal thrift charter, the bill would deprive this viable, useful, and flexible charter of key benefits. If the bill made the benefits of the thrift system generally available in the interest of competition and innovation, then a melding of charters and of holding company regulation could make sense. The bill, however, manifestly fails to provide such benefits.

The unitary thrift holding company permits commercial affiliations with depository institutions whose commercial lending authority is limited (federal thrifts' commercial lending activities are limited to 20 percent of assets, with half of that amount required to be in small business loans). The bill's elimination of the unitary structure and other advantages of the thrift charter, unaccompanied by broader financial services reform, would remove a useful structure for financial modernization and reduce consumer choices and benefits. There appears to be no sound public policy justification for such a step.

Finally, we note that making the thrift provisions effective on January 1, 2000 would appear to be inopportune, given the year 2000 computer issue which will occupy substantial resources as that date approaches.

Federal Home Loan Bank System

The Federal Home Loan Bank System has structural flaws that raise serious policy and safety and soundness concerns. Changes in housing finance, technology, and the System's membership have rendered the System's 65-year-old structure obsolete, and raise questions about the allocation and effectiveness of the System's federal subsidy.

The FHLBank provisions contained in the bill would likely expand the size of the System without increasing its focus on meeting a clearly defined public purpose. The bill contains some positive provisions such as eliminating mandatory membership and fixing the REFCorp allocation formula, and adding a risk-based element to FHLBank capital requirements. However, the bill would open FHLBank membership to insured depository institutions with less than $500 million in assets without *any* limit; significantly increase the membership and advance activity of large financial institutions; place only modest limitations on investments, and then only at the discretion of the Finance Board; and create 12 different capital structures. The net result of these amendments would likely be an unfocused increase in FHLBank advance activity (especially to large financial institutions) and only limited reform of the FHLBanks' huge investment-arbitrage portfolios.

We continue to believe that comprehensive reform of the FHLB System should be reserved to another time so that Congress can focus clearly on the needs of the System.

Insurance Powers and Regulation

Title III-A, dealing with state regulation of insurance, is discriminatory and anti-competitive. Consumers of insurance products would not realize the gains, in the form of increased choices and lower prices, that true financial modernization would bring.

Inadequate Protection Against Discriminatory State Laws

While purporting to protect against discriminatory state laws, section 104 would permit state regulators to discriminate against banks by preserving any state law that applies to insurance underwriting affiliates of banks "in the same manner" as to insurance underwriters not affiliated with banks. Unlike the standard established in the Supreme Court's *Barnett* decision, this language would permit, and perhaps invite, state laws designed to disadvantage insurance companies affiliated with banks. For example, in determining risk-related capital requirements for insurance underwriters, a state could apply its capital requirement to insurance holding companies and prohibit counting loans other than real estate loans as assets. Even though the requirement would apply to insurance companies affiliated with banks "in the same manner" as to those not affiliated with banks, it would discriminate against companies owning banks because banks have large loan portfolios. The bill should not allow states to deprive customers of the full benefits of bank competition in the insurance underwriting market.

Providing Discriminatory Insurance Agency Limitations

The bill would preserve the discriminatory and anti-competitive rule restricting direct national bank insurance sales to a place of 5,000 or fewer people, without imposing a similar rule on state banks. In addition, section 305 would prohibit national banks and their subsidiaries -- but not state banks and their subsidiaries -- from commencing insurance agency activities in a new state; it would, instead, limit them to purchasing existing agents. These requirements are blatantly discriminatory and anti-competitive.

Nullifying Judicial Deference

Since 1809, the Supreme Court has given weight to the construction of federal statutes by the Executive Branch officials charged with administering those statutes. Over the years, the Supreme Court has refined this concept of judicial deference, culminating in the landmark 1984 decision in *Chevron v. Natural Resources Defense Council.* Two recent Supreme Court decisions have upheld the doctrine with particular application to national banks: *NationsBank v. Variable Annuity Life Insurance Co.* and *Smiley v. Citibank.*

The basis of these precedents -- the public policy interest in political accountability, agency expertise, and familiarity with regulated industries, and the need for finality and uniformity of regulatory decisions -- strongly counsels against impairing judicial deference for federal agency interpretations of law. That is particularly true for federal banking agencies' interpretations involving the knotty intersection of banking and insurance. It is precisely when difficult questions of policy and law arise, such as the question where to draw the line between insurance and banking services, that the need for judicial deference to agency interpretations is greatest.

Anti-competitive Limitations on Insurance Underwriting

Section 304 would generally prohibit banks and their subsidiaries from providing as principal new products deemed "insurance" in a state, and would allow each state to determine what products constitute "insurance." Section 304 would create a safe harbor for many products previously permissible for national banks to provide as principal, but states would be free to deem any future product to be "insurance" and thereby place it off limits to banks.

Financial innovation often involves hybrid features that combine elements of different kinds of products. Certain types of financial options, for example, could have characteristics of a security and of insurance. Derivatives can be indistinguishable from insurance. Section 304 would have a potentially chilling effect on financial innovation by freeing state regulators to take an overly expansive view and characterize hybrid products as "insurance."

Moreover, allowing 50 different state insurance regulators to distinguish insurance from banking, and regulate the new activities they determine to be insurance, would invite chaos. The result would be a plethora of litigation and a patchwork of legal requirements that would unjustifiably disadvantage banks and their customers.

Providing Protectionist Limitations on Title Insurance Activities

The bill singles out for restriction national banks' authority to sell title insurance in states that permit that activity for state banks after January 1, 1997. There is no reason for this blatant discrimination against national banks and their customers.

State Preemption of Federally Mandated Disclosures to Insurance Customers

Section 308 would require the federal banking agencies to prescribe a series of consumer protections for bank sales of insurance products: e.g., a disclosure that insurance products are not FDIC-insured. We support this step.

However, section 308 would also make these consumer protections inapplicable whenever a state law, regulation, or interpretation is "inconsistent with or contrary to" the federal regulations. Section 308 thus appears to allow states to nullify the consumer protections by adopting more lenient requirements. This license to nullify is as unjustified as it is unprecedented. We see no reason, for example, why a state commissioner should be able to use an interpretation of state law to deprive consumers of a disclosure that insurance products are not FDIC-insured.

Unnecessary Codification of Rules of Construction

Sections 301 and 303 are unnecessary and could have unintended consequences.

Section 301 would affirm that the McCarran-Ferguson Act remains the law. Section 303 would declare that insurance sales shall be functionally regulated by the states. The reason for the reiteration of McCarran-Ferguson is unclear, and the term "functionally regulated" is undefined. Thus, courts could at some point give these provisions an unintended meaning.

National Association of Registered Agents and Brokers

We see logic in establishing a self-regulatory organization for insurance agents and brokers, as under Title III-C. But such an organization must not become a means by which one group of competitors gives itself an advantage over others -- e.g., by discriminating against agents and brokers because they are affiliated with depository institutions. Consumers deserve the benefits of the most robust possible competition for their business.

Title III-C would not only fail to prohibit such discrimination but would actually facilitate it. The new self-regulatory organization (NARAB) could adopt licensing standards for sellers of products that any state labels as "insurance." Because NARAB would derive its rulemaking powers from Congress, depository institutions could not use the principles articulated in the Supreme Court's *Barnett* decision to resist NARAB rules that were discriminatory. Although section 325 would prohibit the NARAB from adopting "special categories of membership" or "distinct membership criteria" for insured depository institutions and their employees, nothing would prohibit NARAB from enacting a general rule that would have a disparate impact on depository institutions.

Wholesale Financial Institutions

Sections 131, 132, 133, and 136, dealing with wholesale financial holding companies and wholesale financial institutions (WFIs), are seriously flawed. In addition, section 152's requirement that foreign banks convert to WFIs differs from that applied to domestic banks, raising national treatment concerns.

Our specific concerns are as follows:

Comptroller of the Currency's Role in Policy-Setting

Section 136 of the bill would eliminate any role for the Comptroller of the Currency in policy relating to WFIs -- including rulemaking, other standard-setting, and exemptions -- even for WFIs with national bank charters. This undermines the dual banking system and inappropriately denies the Comptroller of the Currency a role in rulemaking regarding such matters as capital standards, capital categories for prompt corrective action, and exemptions from other laws. The Federal Reserve should have unilateral authority only to protect the payments system by taking into account the financial condition of a WFI's affiliates when setting credit limits or by prescribing special clearing balance requirements for WFIs.

Inadequate Safeguards

Section 136 contains inadequate safeguards to protect consumers, the payments system, and the taxpayers. The Federal Reserve would have broad authority to exempt WFIs from other laws -- including capital requirements, prompt corrective action, limits on transactions with unregulated affiliates, CRA, and consumer protections -- so long as the exemption was "not inconsistent" with a vague set of objectives, which would include "the protection of the deposit insurance funds" and "the protection of creditors and other persons . . . engaged in transactions with" WFIs.

Section 136 would in effect permit uninsured WFIs to deal with retail customers who may expect deposit insurance and consumer protections. It would forbid only an "initial deposit" of $100,000 or less in a WFI, unless such receipt occurred "on an incidental and occasional basis," but would at the same time permit the WFI to derive up to 5 percent of its total deposits from accounts with initial deposits of less than $100,000. Thus, the bill does not screen out retail customers -- those that may not fully understand or be able to bear the risks of placing their savings with WFIs.

Section 136 would purport to apply to WFIs the prompt corrective action provisions of the Federal Deposit Insurance Act. But those provisions have as their lodestar the purpose expressed in section 38(a)(1) of that Act: namely, "resolving the problems of insured depository institutions at the least possible long-term loss to the deposit insurance fund." Because WFIs are uninsured, this purpose would logically not apply; it certainly would fail to provide clear guidance for dealing with WFIs.

Insolvency

Failed WFIs should be resolved under the Bankruptcy Code, not under conservatorship provisions designed for the insolvency of insured depository institutions. By choosing the latter route, the bill potentially sends a misleading signal to capital markets that creditors of WFIs may expect troubled WFIs to receive special treatment, as if they were too big to fail.

Regulation of Owners of WFIs: Wholesale Financial Holding Companies

The bill would subject companies that own a WFI (but not an FDIC-insured depository institution) to regulation as a wholesale financial holding company, regulated under the Bank Holding Company Act. Such a company could not engage in more than a very modest amount of non-financial activities (unless it had pre-existing non-financial business). The Federal Reserve would have explicit authority to set capital requirements for these companies.

With adequate safeguards, there should be no need for holding company regulation for WFIs with no FDIC-insured affiliates.

Functional Regulation

Broker-Dealer Regulation of Banking Products

Sections 201 and 202 include exemptions for "traditional banking products" from broker-dealer regulation. The definition of "traditional banking product" in section 206 does not include an elasticity clause allowing regulators to expand the definition by rulemaking or on a case-by-case basis. Instead, section 206 in effect would authorize the SEC to apply broker-dealer regulation to banks providing "new banking products" if, after considering the views of the federal banking agencies, it determined that such regulation was necessary or appropriate in the public interest and for the protection of investors.

In order to ensure that regulatory uncertainty does not prevent banks from offering innovative banking products, we support including a statutory mechanism for determining whether bank products not otherwise enumerated should be subject to broker-dealer regulation. However, such a mechanism should not vest sole authority in the SEC. Doing so, even with a consultation requirement, would leave the banking regulators without a role in shaping policy on an issue directly affecting safety and soundness and other fundamental objectives of banking regulation.

Regulation of Bank-Issued Securities

Unlike sections 205 and 206 of the Treasury's June 1997 proposal, the bill would not transfer oversight of bank-issued securities from the banking agencies to the SEC. We see no justification for continuing the present system of overlapping and duplicative functions by four banking regulators and the SEC.

For the most part the banking regulators already administer these functions comparably to the SEC. Where different treatment of banks and nonbank issuers might be necessary for safety and soundness or other reasons, the SEC could make appropriate adjustments after consulting with the appropriate banking regulator. Thus, consolidating these functions in the SEC would promote efficiency in government and reduce regulatory costs. It would be consistent with the goals of functional regulation by ensuring uniformity of regulation and enforcement.

Push-Out and Restriction of Activities

The bill would place many restrictions on a bank's ability to continue to engage in its activities after the current bank exemptions from SEC broker and dealer regulation are removed. These additional limitations would affect important activities including loan participations and private placements. We see no reason for these restrictions, which may force activities out of banks or make the activities difficult for banks to provide. In addition, these restrictions reduce the product diversity of banks. Bank customers are protected by strong regulation and enforcement, and these restrictions are unnecessary.

FDIC Board

In the context of combining the OTS with the OCC, we support restoring the FDIC's Board of Directors to the three-member configuration it had for 56 years until 1989 (when the OTS was established). This included 12 years with a three-member board fully subject to the Government in the Sunshine Act.

Section 434 of the bill would, at an additional cost of over $1 million annually, maintain a five-member Board of Directors. No showing has been made that the FDIC needs a five-member board to get its work done. Indeed, the only case that has been advanced for the five-member size has been the agency's desire to avoid the constraints of the Government in the Sunshine Act. We believe that to be an inadequate reason to justify the expenditures involved. The federal government currently includes at least seven three-member boards: the Farm Credit Administration, Merit Systems Protection Board, National Credit Union Administration, National Mediation Board, Occupational Safety and Health Review Commission, Railroad Retirement Board, and Tennessee Valley Authority.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
March 26, 1998

Contact: Kelly Crawford
(202) 622-2960

Statement by Treasury Secretary Robert E. Rubin on IMF Legislation

The Senate's vote to fund fully the IMF is a major step toward providing the IMF with the resources necessary to deal with risks to financial stability around the world. An IMF with sufficient resources to respond to threats of financial instability is critically important to the well being of American workers, businesses and farmers.

The overwhelming bipartisan support for IMF funding is indicative of the importance of this issue to our national security interests and the economic well being of American workers, businesses and farmers. We will continue to work with Congress to achieve full funding for the IMF as soon as possible.

-30-

RR-2328

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

MEDIA ADVISORY
March 30, 1998

Contact: Beth Weaver
(202) 622-2960

CUSTOMS SEIZED DIAMONDS TO BE SOLD AT CHRISTIE'S AUCTION

Treasury Under Secretary for Enforcement Raymond W. Kelly will deliver remarks on Wednesday, April 1 at 9:30 a.m. about a U.S. Customs Service case that resulted in the seizure and forfeiture of a collection of 33 rare diamonds that will be sold at Christie's.

Proceeds from Christie's April 6 and 7 auction of the diamonds, estimated between $400,000-500,000, will go to the Department of the Treasury to support law enforcement efforts including crime prevention and drug abuse programs.

DATE: Wednesday, April 1, 1998

TIME: 9:30 a.m.

PLACE: Christie's
502 Park Avenue
New York, NY

-30-

RR-2329

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
March 30, 1998

Contact: Dan Israel
(202) 622-2960

U.S. AND KOREA TO NEGOTIATE NEW INCOME TAX TREATY

The United States and the Republic of Korea will begin negotiations of a new income tax treaty in Seoul on November 9, 1998. The new treaty would replace the treaty currently in force between the two countries, which was signed on June 4, 1976.

There have been substantial changes in the tax laws of both countries during the past twenty years and the present treaty no longer adequately reflects current treaty policies of the United States or of Korea. The negotiations will be based on the U.S. and Korean model treaties both of which draw heavily on the OECD model. The treaty will deal with the taxation of income from business activities, investment, and personal services derived by residents of one country from the other. It will contain provisions to avoid double taxation, to ensure nondiscrimination, and to prevent abuse of the treaty. It will also provide for exchange of information and other administrative cooperation between the tax authorities of the two countries.

The Treasury Department invites comments from the public regarding the upcoming negotiations. Persons wishing to comment on the proposed treaty are invited to send their written comments to Joseph H. Guttentag, Deputy Assistant Secretary (International Tax Affairs), Room 1334 Main Treasury, Washington, D.C. 20220. They may also submit comments by fax to (202) 622-0605.

-30-

RR-2330

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
March 30, 1998

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Term:	91-Day Bill
Issue Date:	April 02, 1998
Maturity Date:	July 02, 1998
CUSIP Number:	912795AA9

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate 1/	Price
Low	5.040%	5.176%	98.726
High	5.055%	5.192%	98.722
Average	5.050%	5.188%	98.723

Tenders at the high discount rate were allotted 35%.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 30,321,759	$ 4,218,254
Noncompetitive	1,249,240	1,249,240
PUBLIC SUBTOTAL	31,570,999	5,467,494
Federal Reserve	3,607,430	3,607,430
Foreign Official Inst.		
Refunded Maturing	795,700	795,700
Additional Amounts	0	0
TOTAL	$ 35,974,129	$ 9,870,624

1/ Equivalent coupon-issue yield.

RR-2331

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
March 30, 1998

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Term:	182-Day Bill
Issue Date:	April 02, 1998
Maturity Date:	October 01, 1998
CUSIP Number:	912795AL5

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate 1/	Price
Low	5.060%	5.265%	97.442
High	5.080%	5.286%	97.432
Average	5.075%	5.282%	97.434

Tenders at the high discount rate were allotted 31%.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 24,824,475	$ 4,033,475
Noncompetitive	1,104,981	1,104,981
PUBLIC SUBTOTAL	25,929,456	5,138,456
Federal Reserve	3,620,000	3,620,000
Foreign Official Inst.		
Refunded Maturing	2,130,000	2,130,000
Additional Amounts	0	0
TOTAL	$ 31,679,456	$ 10,888,456

1/ Equivalent coupon-issue yield.

RR-2332

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

EMBARGOED UNTIL 2:30 P.M.
March 31, 1998

CONTACT: Office of Financing
202/219-3350

TREASURY'S WEEKLY BILL OFFERING

The Treasury will auction two series of Treasury bills totaling approximately $13,000 million, to be issued April 9, 1998. 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 $15,151 million.

In addition to the public holdings, Federal Reserve Banks for their own accounts hold $7,069 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 $2,960 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-2333

HIGHLIGHTS OF TREASURY OFFERINGS OF WEEKLY BILLS
TO BE ISSUED APRIL 9, 1998

March 31, 1998

Offering Amount	$5,750 million	$7,250 million
Description of Offering:		
Term and type of security	91-day bill	182-day bill
CUSIP number	912795 AB 7	912795 AM 3
Auction date	April 6, 1998	April 6, 1998
Issue date	April 9, 1998	April 9, 1998
Maturity date	July 9, 1998	October 8, 1998
Original issue date	January 8, 1998	April 9, 1998
Currently outstanding	$12,275 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 three decimals in increments of .005%, e.g., 7.100%, 7.105%.
(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 $1 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

EMBARGOED UNTIL 9:30 A.M. EST
Text as Prepared for Delivery
April 1, 1998

TREASURY SENIOR ADVISOR TO THE UNDER SECRETARY
FOR DOMESTIC FINANCE GERALD MURPHY
HOUSE GOVERNMENT REFORM AND OVERSIGHT SUBCOMMITTEE ON
GOVERNMENT MANAGEMENT, INFORMATION AND TECHNOLOGY

Mr. Chairman and members of the Subcommittee, I am pleased to appear today to discuss matters involving the first Consolidated Financial Statements of the U.S. Government (CFS).

BACKGROUND

The Department of the Treasury has been and continues to be a strong proponent for the development of financial statements for Government agencies. This is the first time audited consolidated financial statements are required to be prepared on a government-wide basis. The statements are intended to provide the President, the Congress, and the American people with information about the Government's financial position, the cost of its operations and its sources of financing. They are the capstone of a process which began eight years ago as a result of legislation originating with this Committee.

In 1990, Congress passed the Chief Financial Officers (CFO) Act which required the preparation and audit of financial statements for certain agencies and components of agencies. That same year, the Office of Management and Budget (OMB), Treasury and the General Accounting Office (GAO) created the Federal Accounting Standards Advisory Board (FASAB). This body has created a comprehensive set of accounting standards tailored to the unique characteristics and needs of the Federal Government. The Government Management Reform Act was passed requiring that the Federal Government's 24 largest departments and agencies produce audited financial statements beginning in FY 1996. Agency statements are due March 1. The first

RR-2334

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

Consolidated Financial Statements for FY 1997 are based on the financial statements prepared by Federal agencies under those statutes and the new accounting standards.

THE ROLE OF THE DEPARTMENT OF THE TREASURY

The Government Management Reform Act of 1994 (GMRA) requires that not later than March 31 of 1998 and each year thereafter, the Secretary of the Treasury, in coordination with the Director of the Office of Management and Budget, shall annually prepare and submit to the President and the Congress an audited financial statement for the preceding fiscal year, covering all accounts and associated activities of the executive branch of the United States Government. The financial statement shall reflect the overall financial position, including assets and liabilities, and results of operations, of the executive branch of the United States Government, and shall be prepared in accordance with the form and content requirements set forth by the Director of the Office of Management and Budget. The Government Management Reform Act also requires the Comptroller General of the United States to audit the CFS.

THE PREPARATION OF THE CFS

In order to prepare the CFS by the statutory due date, it was necessary to request agency trial-balance data by February 15. Much of this information had not yet been audited but was transmitted to the Financial Management Service (FMS) electronically so we could get started. Subsequent audit adjustments were accepted, but not all agencies had completed audits when we closed our books to meet the statutory due date.

The data transmitted needed to be standardized throughout the Federal Government to allow for summarization at the government-wide level. This standardization was accomplished by requiring agencies to use the U.S. Government Standard General Ledger (SGL). The SGL is maintained by FMS and is required for agency level accounting and reporting as well as government-wide reporting. Without the SGL, data could not be summarized for the CFS. Approximately 2000 individual reporting components, each with many account balances, were telecommunicated to Treasury via our FACTS system. Without the electronic transmission system, data could not have been collected and processed quickly enough to meet the statutory due date.

The size and complexity of the CFS preparation process far exceeded any previous financial consolidation effort. The data came from the 24 CFO Act agencies and many more smaller ones. Each agency acts as an independent financial entity and maintains its own financial system. To consolidate data from all these various systems was a daunting task.

However, it is not enough to collect the data and be able to summarize it. There has to be a reporting model. The Government Management Reform Act specified that OMB set forth the form and content requirements for the CFS. The CFS prepared by the Department of the Treasury conforms to OMB's form and content requirements. The reporting model used was recommended by FASAB and prescribed by OMB.

DISCUSSION OF THE CFS

General

The U.S. Government has continuing responsibilities for the general welfare of its citizens and for the national defense. It also has unique access to financial resources in that it has the power to tax, to borrow and to create money. The Fiscal Year 1997 Consolidated Financial Statements of the United States Government represent the Federal Government's first effort to prepare, in accordance with new Federal accounting standards, financial statements that include all of its vast and complex activities and to subject the financial statements to the rigors of an independent audit.

The publication of the audited financial statements represents yet another stage in the Clinton Administration's continuing efforts to improve the management and efficiency of the United States Government. In 1994, the Administration strongly supported the Government Management Reform Act, which mandated the issuance of the audited financial statements. Despite the substantial progress that has been made, however, further improvements are clearly necessary. The audit report from GAO discusses many areas in which the reliability of the current financial statements must be enhanced and improved. As a result, GAO was unable to render an opinion on these statements.

The FY 1997 Consolidated Financial Statements are the first step in an effort to provide the President, the Congress and the American people with reliable information about the financial position of the United States Government on an accrual basis, the net cost of its operations, and the financing sources used to fund these operations. The United States Government does not have a single bottom line that reflects its financial status but the information included in the statements provides a view of the Government's finances that has not previously been available. The financial statements consist of Management's Discussion and Analysis (MD&A), a Balance Sheet, a Statement of Net Cost, a Statement of Changes in Net Position, Notes to the Financial Statements, and Supplementary Information, which includes a stewardship section.

Reporting Entity and Basis of Accounting

The financial statements include the executive branch and limited information from the legislative and judicial branches of the Federal Government. Information from the legislative and judicial branches is limited because they are not required to prepare financial statements covering all activities. For example, the property, plant, and equipment of the judicial branch and the Congress are not reflected in the statements. Excluded because they are privately owned are Government-sponsored enterprises such as the Federal Home Loan Banks and the Federal National Mortgage Association. The Federal Reserve System also is excluded because organizations and functions pertaining to monetary policy are separate from and independent of the other central government functions.

At the time Congress passed the CFO Act which required the preparation and audit of financial statements for selected components, the Federal Government did not have a comprehensive set of generally accepted accounting standards. The three principals concerned with overall financial management in the Federal Government (the Secretary of the Treasury, the Director of OMB, and the Comptroller General) created the Federal Accounting Standards Advisory Board (FASAB) to address this need. The accounting standards developed by FASAB are tailored to the Federal Government's unique characteristics and special needs. Consequently net costs, rather than profit, are used as the primary financial measure for assessing efficiency and effectiveness. Although FASAB completed work on the basic set of Federal Financial Accounting Standards (FFAS) in 1996, some of the standards did not become effective until Fiscal Year 1997 and others will become effective in Fiscal Years 1998 and 1999. Therefore, agencies are faced with improving systems while the requirements are changing.

CONCLUSION

Since passage of the CFO Act in 1990, much has been accomplished. There is now a comprehensive set of accounting standards in place. For the first time in its history, the Federal Government has prepared and subjected to audit consolidated financial statements covering all its vast and complex programs and activities. The 24 agencies subject to the CFO Act are issuing audited agency wide financial statements. Government corporations subject to the Government Corporation and Control Act also are issuing audited financial statements. While these accomplishments are significant, they are just a beginning.

The Administration has designated financial management as one of the President's priority management objectives. The Administration has expressed its commitment to assuring the integrity of Federal financial information and gaining an unqualified opinion on the 1999 Consolidated Financial Statements of the United States Government. For the Administration to achieve these objectives, agencies must improve the quality of their financial information. Agency commitment to the Administration's objectives is reflected in OMB's Federal Financial Management Status Report and Five-Year Plan. That document sets forth the dates by which agencies have pledged to submit timely financial statements with unqualified audit opinions.

Weaknesses in agency accounting practices and financial management systems are the fundamental cause of problems that precluded the auditor from rendering an opinion on the FY 1997 Consolidated Financial Statements. Actions to correct these weaknesses have been identified and are being implemented. OMB, Treasury, and GAO are working with the major credit agencies to improve reporting of loans and loan guarantees.

In addition, Treasury plans to step up its efforts with agencies to ensure effective cash disbursement reconciliations by providing frequent analysis of budget clearing accounts so that cash receipt and disbursement differences can be promptly resolved.

Treasury and OMB are coordinating efforts to resolve the problems agencies are having in eliminating transactions with other Federal agencies. Guidance and requirements will be provided to enable agencies to capture information needed to reconcile balances with their Federal trading partners. Treasury will also begin the modification of its systems to support agency efforts.

Finally, Treasury will increase its formal and informal training of agency financial management personnel. The training will address common errors identified in agency information used in the preparation of the Federal Government's 1997 Consolidated Financial Statements.

Thank you, Mr. Chairman. This concludes my formal remarks. I will be happy to respond to any questions.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

EMBARGOED UNTIL 1 P.M. EST
Text as Prepared for Delivery
April 1, 1998

TREASURY ASSISTANT SECRETARY (ENFORCEMENT) JAMES E. JOHNSON
HOUSE BANKING AND FINANCIAL SERVICES SUBCOMMITTEE ON GENERAL OVERSIGHT AND INVESTIGATIONS

Introduction

Mr. Chairman, Congressman Sanders, and Members of the Subcommittee, thank you for providing me with the opportunity to appear before you today to present the views of the Treasury Department on the Financial Crimes Enforcement Network, commonly known as FinCEN. My testimony today will address FinCEN's role in Treasury's efforts against money laundering and related financial crimes.

As you know, money laundering allows drug traffickers, arms smugglers, tax cheats, and many other criminals to fund and profit from their illicit activities. At a recent Summit of the Americas, Secretary Rubin called for an international commitment to stop those attempting to "wash the blood off the profits" from crime and drugs. Because of the harms that can be caused or facilitated as a result of money laundering, Secretary Rubin and Under Secretary Kelly have worked to ensure that the Treasury Department assigns top priority to combating money laundering and other financial crimes. By deterring or detecting money laundering activities, law enforcement and regulators working in partnership can attack the criminal activities generating the illicit funds.

Over the past few years, money laundering has gained increasing attention as an enforcement problem. Mr. Chairman, your efforts and those of this Subcommittee to focus attention on financial crime have helped us execute a comprehensive strategy against money laundering and other financial crimes. We particularly appreciate your support of Treasury's recent Geographic Targeting Orders focused on preventing illicit funds transfers to Colombia and the Dominican Republic.
RR-2335

FinCEN's work to combat money laundering and financial crime reflects Treasury's three-pronged approach to this criminal problem. First, through outreach, partnerships with industry, and regulatory programs, FinCEN helps us prevent money laundering and financial crimes before they occur. Second, FinCEN's case support advances, and in some instances, precedes criminal investigations by Customs, the Internal Revenue Service's Criminal Investigation Division, and others, and Treasury works with the Department of Justice to prosecute offenders who break through our defenses against money laundering and financial crime. Third, we recognize that money laundering and financial crimes are global problems because of the increasing mobility of capital. As a result, Treasury and FinCEN have enlisted valuable international support and promoted anti-money laundering measures worldwide.

Our strategy is designed to take advantage of the important synergies that emerge from criminal investigation and regulatory enforcement. At the same time, our strategy recognizes the need for flexibility. As law enforcement officials and regulators have responded to the challenge of fighting these crimes, the techniques used by criminals to place dirty money into the financial system and conceal its origins have evolved. In response to these developments, Treasury and FinCEN have continued to innovate and improve upon our efforts.

Treasury and FinCEN's Strides to Combat Money Laundering

Since FinCEN was founded in 1990, it has been a key player in broad-based efforts against money laundering and related financial crimes. In 1995, FinCEN merged with Treasury's Office of Financial Enforcement and gained the responsibility for administration of the Bank Secrecy Act. FinCEN's mission is to provide law enforcement case support to assist in the investigation of money laundering and related financial crimes; to develop and administer regulations aimed at preventing and detecting money laundering and to pursue civil enforcement against violators of these rules; and to strengthen overall domestic and international efforts against money laundering.

The scope of FinCEN's responsibilities has expanded substantially since it was first created; FinCEN's resources have remained relatively unchanged. Nevertheless, it has achieved notable successes in its efforts against money laundering. Mr. Baity, Former Director Stanley Morris, and the women and men of FinCEN should be commended for their accomplishments.

FinCEN's Information Resources

FinCEN's law enforcement case support has always been central to its mission. In order to support law enforcement, FinCEN oversees the collection and dissemination of four significant currency and monetary instrument reports, the Currency Transaction Report (CTR), Currency Transaction Reports for Casinos (CTRC), Currency and Monetary Instrument Reports (CMIR), and Foreign Bank Account Records (FBAR). Data from these reports can be vital to criminal investigations. Data are made available to all major federal law enforcement agencies, and to state and local law enforcement agencies through the Gateway system.

The Suspicious Activity Reporting System (SARS) is another important contribution that FinCEN has helped to provide. The system can rapidly provide law enforcement and regulators with information on suspicious transactions that may merit further investigation. The system represents the culmination of longstanding efforts by members of this Subcommittee, regulators, law enforcement, and the private sector to standardize and simplify the reporting of suspicious financial transactions. Since the system became operational in April 1996, FinCEN has received nearly 150,000 SAR forms.

FinCEN also provides federal, state, and local law enforcement with information from commercial databases including information on property, assets, and other areas. While some of these resources may be available elsewhere, only FinCEN provides law enforcement agencies with comprehensive access to a full range of property and asset records in addition to the proprietary BSA and SAR information. In addition, FinCEN makes available certain key federal law enforcement databases to appropriate requesters.

All of these information sources complement each other. While a single transaction described in a Suspicious Activity Report may not provide enough to justify an investigation, it could prove significant when taken together with information from Currency Transaction Reports, commercial property records, and criminal investigation databases.

Accessing FinCEN Data

FinCEN provides a range of ways to help law enforcement use these resources appropriately, including internal FinCEN platforms, detailees based at FinCEN, the Gateway system for state and local law enforcement agencies, and direct requests.

FinCEN's general platform systems provide law enforcement agencies direct access to its databanks, including Bank Secrecy Act Reports, Suspicious Activity Reports, and commercial databases. Federal law enforcement agencies also provide detailees (currently about 40 in number) that leverage and complement FinCEN's analytical resources, in addition to facilitating their home agencies' ability to use FinCEN information.

The Gateway program provides state and local law enforcement agencies with access to FinCEN database resources (including financial, law enforcement, and commercial databases) to assist in investigations. Through the Gateway program, state and local enforcement agencies receive a direct, secure link to FinCEN's information resources. State Gateway coordinators help monitor and support use of the system to help ensure that users benefit from FinCEN's capabilities. As the recent GAO study on FinCEN's products and services notes, the Gateway system received nearly 60,000 queries during 1997.

In addition, FinCEN is developing the capacity to provide comprehensive strategic analysis capability of money laundering and related financial crimes to federal, state, and local law enforcement agencies. FinCEN also responds to direct queries from law enforcement agencies concerning both tactical and strategic issues involving money laundering, financial crime, and related crimes.

Thus, FinCEN's information available to a wide range of appropriate law enforcement and regulatory agencies. Our evaluations indicate that this information can prove invaluable to law enforcement.

Regulatory Responsibilities

Regulatory responsibilities have been a key component of FinCEN's mission since its 1995 merger with the Office of Financial Enforcement. For example, FinCEN, working with the SARS Owners Group (consisting of regulatory agencies) and the SARS Users Group (consisting of law enforcement agencies) developed rules for the SAR system that will apply to most financial institutions throughout the nation in the near future.

The list of new mandates under the Annunzio-Wylie Anti-Money Laundering Law and the Money Laundering Suppression Act was prodigious. As a result, FinCEN and Treasury are continuing their efforts to fulfill this mandate. Since FY 1995, FinCEN has issued seven final rules, an interim rule, and ten proposed rules. Some of these undertakings, such as the issuing of a rule covering Money Services Businesses (MSB's), have required FinCEN to carefully study an industry in order to provide a framework for regulation that strikes an effective balance between law enforcement interests and financial efficiency.

International Programs

FinCEN's case support and regulatory activities have been complemented by significant achievements in the international arena. Together, Treasury and FinCEN have helped put money laundering issues on the map. FinCEN has directly played an important role in the Department's pursuit of multilateral agreements and organizations that encourage, evaluate, and provide technical assistance to member nations in combating money laundering. The FATF now encompasses 26 countries, with more members in the process of approval. Among other valuable activities, the FATF has developed 40 recommendations designed to reduce money laundering in member countries, and undertakes a program of mutual evaluations to assess members' anti-money laundering programs. FinCEN has played a pivotal role in the development of FATF. Indeed, during the U.S. Presidency of the FATF, FinCEN provided then Under Secretary Noble with support necessary to implement amendments to the 40 recommendations.

FinCEN has also been instrumental in developing regional anti-money laundering international groups in regions such as Asia and the Caribbean. In recent years, Treasury and

FinCEN have used regional summits, such as the Summit of the Americas, as a vehicle to raise awareness of the threat posed by money laundering and to promote the development of defenses against money laundering.

In the last few years, FinCEN has taken major steps to provide technical assistance leading to the development of Financial Intelligence Units (FIU's) throughout the world. As they develop, these FIU's have tremendous potential on two fronts. First, they can help participating nations combat money laundering directly, thereby making those nations' financial systems a less attractive alternative for money laundering. Second, at a time when financial networks allow rapid funds transfers between countries, FIU's in other nations can provide U.S. law enforcement with valuable information to assist in the investigation of financial criminals. To facilitate this exchange of information, FinCEN has secured memoranda of understanding (MOU's) with thirteen countries and is continuing to develop these agreements with other nations. In addition, FinCEN has worked over the last few years to provide training and technical assistance through the Egmont Group, an international organization of FIU's.

Enhancing FinCEN's Effectiveness: Treasury Initiatives and GAO Reports

We recognize, of course, that there is room for improvement in the execution of FinCEN's mission. As money laundering has garnered increasing attention throughout the enforcement, regulatory, and financial communities, FinCEN has had to respond in multiple ways, prioritizing scarce resources in order to meet its obligations. In the context of these challenges, we view the recent and ongoing GAO studies as a source of valuable assessment of FinCEN's effectiveness and future direction.

As part of our ongoing oversight, management, and policy development responsibilities, Treasury has initiated comprehensive steps to review financial crime enforcement. While not yet complete, the review process has helped us identify key areas where FinCEN could improve in the context of Treasury's overall efforts to combat financial crime. These steps complement existing oversight, including weekly meetings between senior FinCEN management and the Office of Enforcement, and daily briefings on significant developments provided by a FinCEN representative to Under Secretary Kelly or his designee. Treasury was integrally involved in developing the Geographic Targeting Order focused on money transfers to Colombia and the Dominican Republic, and has played an important role in developing regulations.

Although FinCEN effectively serves numerous law enforcement agencies and investigators, we recognize that case support and coordination can always improve. Consistent with the recommendation of the recent GAO study of FinCEN's products and services, FinCEN will work to further communicate its capabilities to its potential customers. In recent years, this customer base has grown as the level of attention devoted to money laundering has expanded. Increasingly, law enforcement agencies at all levels have begun to recognize that money laundering is their problem -- and we intend to let them know how FinCEN can help in this fight.

FinCEN's participation in the Interagency Coordination Group, or ICG, highlights the value of coordination efforts. The purpose of this group is to share money laundering intelligence in order to promote multi-agency money laundering investigations. The group includes the Internal Revenue Service, the U.S. Customs Service, the U.S. Secret Service, the Drug Enforcement Administration, the Federal Bureau of Investigation, and the United States Postal Service. FinCEN and the Department of Justice's Criminal Division serve as advisors to the group. FinCEN provides a central site for the group's operations and the support of analysts who provide research and analysis of the intelligence information generated by the group.

Another useful vehicle for outreach and policy coordination is the Money Laundering Working Group co-chaired by the Departments of Treasury and Justice. This group addresses policy and coordination issues relating to money laundering, and provides an additional means for FinCEN to gather information to improve its products and services to law enforcement.

The GAO study on products and services also highlights the need for FinCEN to continue stringent safeguards against potential misuse of its confidential law enforcement databases. Although we believe that FinCEN's current policies in this regard are sound, we understand that sometimes there appears to be a tension between the wide dissemination of information to appropriate agencies and the prevention of information misuse. It is an area that merits continued vigilance.

Even as FinCEN continues to expand its outreach and attempts to further improve the products and services it offers law enforcement, we are encouraged by the survey included in the GAO study on FinCEN's products and services. The survey indicates that fully 90% of respondents using FinCEN's products and services believe that they provided leads, listed assets not previously known, or were useful in other ways.

The GAO's current study of civil penalty enforcement at FinCEN will likely indicate what our own analysis is telling us -- that civil penalty enforcement through FinCEN could be more effective. While FinCEN's work with federal regulators, the Bank Secrecy Act Advisory Group and its approach of industry partnerships can enhance compliance, more can be done.

We understand that the GAO study is underway to evaluate FinCEN's international role. Because money laundering knows no borders, international efforts are an important component of a comprehensive strategy to address money laundering and financial crime. Treasury and FinCEN have worked together to coordinate and enhance international efforts to prevent money laundering involving specific countries such as Mexico and Panama, as well as multilateral organizations such as the FATF. Given the volume of requests for FinCEN assistance from around the world, FinCEN and Treasury are committed to prioritizing their bilateral assistance based on the nature of the money laundering threat and the prospects for a nation's substantial improvement following FinCEN assistance.

The Department and FinCEN should build on successful efforts by targeting FinCEN's participation strategically and developing enhanced assessments of its international work. We look forward to the results of the study to complement our review of this facet of FinCEN's mission.

Finally, FinCEN must continually enhance its technological resources to meet both case support and regulatory challenges. While FinCEN has already established its role in using innovative information technologies and artificial intelligence targeting, efforts to improve these tools must continue.

Conclusion

The Treasury Department expects FinCEN to continue to play a central role in Treasury's overall strategy of prevention, vigorous case support, and international cooperation. We look forward to working with this Committee in order to further advance FinCEN's mission as we work through this transition period and continue our efforts to improve.

In our role as overseers, Treasury will help FinCEN build on its strengths to better provide dynamic, analytical case support in the fight against money laundering and related financial crimes. Indeed, Treasury's efforts to combat money laundering depend on FinCEN's continuing success. We look forward to the completion of the remaining GAO studies on FinCEN to complement our own internal review of financial crime enforcement at Treasury.

Again, thank you, Mr. Chairman, for your continuing support and interest in our program.

-30-

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

EMBARGOED UNTIL 2:30 P.M.
March 31, 1998

CONTACT: Office of Financing
202/219-3350

TREASURY TO AUCTION CASH MANAGEMENT BILLS

The Treasury will auction approximately $19,000 million of 13-day Treasury cash management bills to be issued April 3, 1998.

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.

Note that competitive bids in cash management bill auctions must be expressed as a discount rate with two decimals, e.g., 7.10%.

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

oOo

Attachment

RR-2336

HIGHLIGHTS OF TREASURY OFFERING
OF 13-DAY CASH MANAGEMENT BILL

March 31, 1998

<u>Offering Amount</u>	$19,000 million
<u>Description of Offering</u>:	
Term and type of security	13-day Cash Management Bill
CUSIP number	912794 6L 3
Auction date	April 1, 1998
Issue date	April 3, 1998
Maturity date	April 16, 1998
Original issue date	October 16, 1997
Currently outstanding	$45,817 million
Minimum bid amount	$10,000
Multiples	$ 1,000
Minimum to hold amount	$10,000
Multiples to hold	$ 1,000
<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 $1 billion or greater. (3) Net long position must be determined as of one half-hour prior to the closing time for receipt of competitive tenders.
<u>Maximum Recognized Bid at a Single Yield</u>	35% of public offering
<u>Maximum Award</u>	35% of public offering
<u>Receipt of Tenders</u>:	
Noncompetitive tenders	Prior to 12:00 noon Eastern Standard time on auction day
Competitive tenders	Prior to 1:00 p.m. Eastern Standard time on auction day
<u>Payment Terms</u>	Full payment with tender or by charge to a funds account at a Federal Reserve Bank on issue date

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
April 1, 1998

Contact: Beth Weaver
(202) 622-2960

CHRISTIE'S TO AUCTION DIAMONDS SEIZED BY U.S. CUSTOMS SERVICE

In the first-ever partnership between the Treasury Department and Christie's, Treasury Under Secretary for Enforcement Raymond W. Kelly announced today that the auction house will sell a collection of 33 rare diamonds seized by the U.S. Customs Service from an infamous drug smuggler.

The diamonds, which are valued between $400,000 and $500,000, will be sold by Christie's to benefit Treasury's Asset Forfeiture Fund which supports federal, state and local law enforcement efforts including crime prevention and drug abuse programs.

"Treasury's forfeiture program destroys the building blocks that support drug traffickers and takes the profit out of crime," said Under Secretary Kelly. "The 33 diamonds ranging in value from $2,000 to $120,000 represent this drug dealer's bank where he stored his ill-gotten gains."

The investigation leading to the diamonds seizure is the story of a 12-year manhunt involving drug smuggling, secret bank accounts in Switzerland and Liechtenstein and international communications.

In 1982, Customs agents discovered that Stephen William Jenks, the former diamonds owner, and his organization had been involved in at least 17 drug smuggling ventures bringing some 55,000 pounds of marijuana from Colombia to Florida between 1978-1982. Upon learning he was under investigation, Jenks and his girlfriend fled to Europe where they lived for the next 12 years.

Jenks returned to the United States using false identification and was again living in Florida with his now wife. Jenks was using an elaborate communications system of false mail-drops to communicate with his associates when law enforcement authorities traced a call to Fort Meyers, Florida.

On July 23, 1994, Jenks was arrested by Customs agents at a trailer park. Jenks pled guilty to four counts of drug trafficking, conspiracy and tax evasion. He was sentenced to three

RR-2337

years in federal prison and agreed to forfeit all his property financed by drug money including the 33 diamonds.

The diamonds, referred to as fancy colored diamonds, range in size from a quarter carat to more than three carats. Their cuts are rectangular, marquise, oval, circular and heart-shaped. Their colors run the spectrum from the near colorless to intense purplish-pink to intense yellow. There's even a highly valuable and equally rare blue diamond.

Christie's will auction the diamonds on behalf of the Treasury Department on April 6 and 7 in New York.

For more information on future U.S. Treasury auctions, please call 703-273-7373 or check our website at www.ustreas.gov/auctions.

-30-

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

March 31, 1998
(House)

STATEMENT OF ADMINISTRATION POLICY

(THIS STATEMENT HAS BEEN COORDINATED BY OMB WITH THE CONCERNED AGENCIES.)

H.R. 10 - Financial Services Act of 1998 [1]
(Leach (R) IA and 3 cosponsors)

The Administration strongly opposes H.R. 10.

The Financial Modernization provisions of H.R. 10 would: (1) stifle innovation and efficiency in the national banking system; (2) undermine the Community Reinvestment Act by forcing financial innovation to occur in holding company affiliates rather than in bank subsidiaries; (3) diminish the ability of communities and consumers to benefit from the financial system; (4) eliminate advantageous features of the current thrift charter; and (5) impose needless costs on small banks. If H.R. 10 were presented to the President in the form of the Republican Leadership substitute, the Secretary of the Treasury would recommend that it be vetoed. The Administration, however, would support House passage of the credit union provisions of H.R. 1151 that have been included in H.R. 10 (excluding Section 402) on a stand-alone basis. The Administration would look forward to working with the Senate to improve the provisions of H.R. 1151. The Administration favors expeditious Congressional action on credit union legislation and believes such action should not be linked to controversies over financial modernization.

With the inclusion of H.R. 1151, H.R. 10 would also provide for interest to be paid on reserves at Federal Reserve banks (section 402 of H.R. 1151 as reported). OMB estimates that these provisions would have an estimated pay-as-you-go cost of $800 million over five years, by reducing the annual net income of the Federal Reserve, which is paid to the Treasury. This represents a transfer of resources from the taxpayers to the banking industry which cannot be justified. The Administration understands that an additional provision has been added to H.R. 10 which would require the Federal Reserve to transfer retained earnings to the Treasury in an amount sufficient to offset the pay-as-you-go effect of this provision of H.R. 1151. The Administration notes that the Senate-reported budget resolution repeats language in prior budget resolutions prohibiting the scoring of savings from the transfer of Federal Reserve retained earnings to the Treasury.

RR-2338

---

[1] The Administration understands that the proposed rule for floor consideration of H.R. 10 provides for the text of H.R. 1151, the "Credit Union Membership Access Act", to be inserted into H.R. 10.

Pay-As-You-Go-Scoring

H.R. 10 is subject to the "pay-as-you-go" (PAYGO) requirements of the Omnibus Budget Reconciliation Act of 1990. The Administration's PAYGO estimate for this bill is under development. As noted above, the provisions of H.R. 1151 would increase the deficit for pay-as-you-go purposes by an estimated $800 million over five years. Unless its budget effects are offset, enactment of H.R. 10 could contribute to a sequester of mandatory programs.

* * * * * * *

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

FEDERAL FINANCING BANK March 31, 1998

Charles D. Haworth, Secretary, Federal Financing Bank (FFB), announced the following activity for the month of February 1998.

FFB holdings of obligations issued, sold or guaranteed by other Federal agencies totaled $47.3 billion on February 28, 1998, posting a decrease of $980.7 million from the level on January 31, 1998. This net change was the result of a decrease in holdings of agency debt of $285.8 million, in holdings of agency assets of $130.0 million, and in holdings of agency guaranteed loans of $564.9 million. FFB made 60 disbursements during the month of February. FFB also received 167 prepayments in February.

Attached to this release are tables presenting FFB February loan activity and FFB holdings as of February 28, 1998.

RR-2339

FEDERAL FINANCING BANK
FEBRUARY 1998 ACTIVITY

BORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST RATE
AGENCY DEBT				
U.S. POSTAL SERVICE				
U.S. Postal Service	2/2	$61,100,000.00	2/3/98	5.509% S/A
U.S. Postal Service	2/2	$450,000,000.00	2/3/98	5.319% S/A
U.S. Postal Service	2/3	$49,600,000.00	2/4/98	5.509% S/A
U.S. Postal Service	2/3	$115,000,000.00	2/4/98	5.384% S/A
U.S. Postal Service	2/3	$35,000,000.00	2/4/98	5.384% S/A
U.S. Postal Service	2/4	$31,200,000.00	2/5/98	5.364% S/A
U.S. Postal Service	2/6	$600,000,000.00	2/9/98	5.269% S/A
U.S. Postal Service	2/6	$50,000,000.00	2/9/98	5.269% S/A
U.S. Postal Service	2/9	$1,000,000,000.00	2/10/98	5.298% S/A
U.S. Postal Service	2/10	$25,190,000.00	2/11/98	5.457% S/A
U.S. Postal Service	2/10	$750,000,000.00	2/11/98	5.343% S/A
U.S. Postal Service	2/10	$50,000,000.00	2/11/98	5.343% S/A
U.S. Postal Service	2/10	$25,000,000.00	2/11/98	5.343% S/A
U.S. Postal Service	2/11	$39,900,000.00	2/12/98	5.468% S/A
U.S. Postal Service	2/11	$640,000,000.00	2/12/98	5.332% S/A
U.S. Postal Service	2/11	$50,000,000.00	2/12/98	5.332% S/A
U.S. Postal Service	2/12	$25,000,000.00	2/13/98	5.343% S/A
U.S. Postal Service	2/12	$50,000,000.00	2/13/98	5.343% S/A
U.S. Postal Service	2/12	$500,000,000.00	2/13/98	5.343% S/A
U.S. Postal Service	2/13	$39,400,000.00	2/17/98	5.474% S/A
U.S. Postal Service	2/13	$450,000,000.00	2/17/98	5.342% S/A
U.S. Postal Service	2/17	$78,400,000.00	2/18/98	5.447% S/A
U.S. Postal Service	2/17	$650,000,000.00	2/18/98	5.349% S/A
U.S. Postal Service	2/17	$50,000,000.00	2/18/98	5.349% S/A
U.S. Postal Service	2/17	$25,000,000.00	2/18/98	5.349% S/A
U.S. Postal Service	2/18	$23,700,000.00	2/19/98	5.447% S/A
U.S. Postal Service	2/18	$500,000,000.00	2/19/98	5.322% S/A
U.S. Postal Service	2/19	$255,000,000.00	2/20/98	5.322% S/A
U.S. Postal Service	2/19	$50,000,000.00	2/20/98	5.322% S/A
U.S. Postal Service	2/20	$23,900,000.00	2/23/98	5.465% S/A
U.S. Postal Service	2/20	$1,075,000,000.00	2/23/98	5.331% S/A
U.S. Postal Service	2/23	$21,160,000.00	2/24/98	5.530% S/A
U.S. Postal Service	2/23	$1,350,000,000.00	2/24/98	5.340% S/A
U.S. Postal Service	2/23	$50,000,000.00	2/24/98	5.340% S/A
U.S. Postal Service	2/24	$9,800,000.00	2/25/98	5.520% S/A
U.S. Postal Service	2/24	$1,200,000,000.00	2/25/98	5.405% S/A
U.S. Postal Service	2/24	$50,000,000.00	2/25/98	5.405% S/A
U.S. Postal Service	2/25	$29,700,000.00	2/26/98	5.561% S/A
U.S. Postal Service	2/25	$1,050,000,000.00	2/26/98	5.395% S/A
U.S. Postal Service	2/25	$50,000,000.00	2/26/98	5.395% S/A
U.S. Postal Service	2/26	$20,400,000.00	2/27/98	5.592% S/A

S/A is a Semi-annual rate.

FEDERAL FINANCING BANK
FEBRUARY 1998 ACTIVITY

ORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST RATE
GENCY DEBT				
U.S. POSTAL SERVICE				
U.S. Postal Service	2/26	$900,000,000.00	2/27/98	5.436% S/A
U.S. Postal Service	2/26	$50,000,000.00	2/27/98	5.436% S/A
U.S. Postal Service	2/27	$72,600,000.00	3/2/98	5.569% S/A
U.S. Postal Service	2/27	$835,000,000.00	3/2/98	5.467% S/A
U.S. Postal Service	2/27	$50,000,000.00	3/2/98	5.467% S/A
U.S. Postal Service	2/27	$25,000,000.00	3/2/98	5.467% S/A
GOVERNMENT - GUARANTEED LOANS				
GENERAL SERVICES ADMINISTRATION				
Miami Law Enforcement	2/3	$49,500.00	1/3/22	5.937% S/A
Memphis IRS Service Cent.	2/6	$1,641,090.00	1/2/25	6.014% S/A
Memphis IRS Service Cent.	2/9	$389,742.54	1/2/25	6.007% S/A
Foley Services Contract	2/24	$171,935.15	7/31/25	5.987% S/A
Foley Square Office Bldg.	2/26	$33,751.00	7/31/25	6.025% S/A
Chamblee Office Building	2/27	$215,789.78	4/1/99	5.565% S/A
Chamblee Office Building	2/27	$2,805,864.77	4/1/99	5.565% S/A
GSA/PADC				
ICTC Building	2/18	$10,374,900.30	11/2/26	5.882% S/A
RURAL UTILITIES SERVICE				
Delaware Co. Elec. #470	2/6	$300,000.00	1/3/28	5.980% Qtr.
Coast Electric Power #471	2/9	$4,500,000.00	12/31/31	5.981% Qtr.
Coastal Elec. #460	2/10	$3,310,000.00	12/31/31	6.010% Qtr.
Holmew-Wayne Elec. #455	2/13	$1,920,000.00	3/31/08	5.611% Qtr.
Marshalls Energy Co. #458	2/27	$736,000.00	1/2/18	6.438% Qtr.

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

FEDERAL FINANCING BANK
(in millions)

Program	February 28, 1998	January 31, 1998	Net Change 2/1/98-2/28/98	FY '98 Net Cha 10/1/97-2/28
Agency Debt:				
Export-Import Bank	$ 549.3	$ 549.3	$ 0.0	$ -74
Resolution Trust Corporation	738.8	738.8	0.0	-63
U.S. Postal Service	1,982.6	2,268.4	-285.8	1
sub-total*	3,270.7	3,556.5	-285.8	-1,36
Agency Assets:				
FmHA-RDIF	3,675.0	3,675.0	0.0	
FmHA-RHIF	13,030.0	13,160.0	-130.0	-50
DHHS-Health Maintenance Org.	4.4	4.4	0.0	
DHHS-Medical Facilities	13.0	13.0	0.0	
Rural Utilities Service-CBO	4,598.9	4,598.9	0.0	
Small Business Administration	0.0	0.0	0.0	
sub-total*	21,321.3	21,451.3	-130.0	-50
Government-Guaranteed Loans:				
DOD-Foreign Military Sales	2,955.7	2,989.4	-33.7	-9
DoEd-HBCU	1.2	1.2	0.0	
DHUD-Community Dev. Block Grant	34.2	34.2	0.0	-
DHUD-Public Housing Notes	1,491.4	1,491.4	0.0	-7
General Services Administration +	2,448.8	2,439.9	8.9	2
DOI-Virgin Islands	17.8	17.8	0.0	-
DON-Ship Lease Financing	1,224.9	1,224.9	0.0	-8
Rural Utilities Service	14,315.0	14,851.8	-536.9	-50
SBA-State/Local Development Cos.	255.7	259.0	-3.3	-1
DOT-Section 511	3.9	3.9	0.0	
sub-total*	22,748.7	23,313.6	-564.9	-74
	=========	=========	=========	======
grand-total*	$ 47,340.7	$ 48,321.4	$ -980.7	$ -2,60

*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

"Russia in 1998: Building A Pluralist Market Economy"
Remarks by Lawrence H. Summers
Deputy Secretary of the Treasury
US-Russia Business Council
Washington, DC
April 1, 1998

Thank you. It is a pleasure to be here to discuss Russia's economic future with so many of the people who are helping to shape it.

We meet after a week of surprises. Kremlin-watchers will debate what last week's events tell us about where Russia is heading. But in the financial markets' calm reaction we already have a powerful symbol of how far Russia has come. After years of reform, it is becoming a place where political surprises are not necessarily economic ones; where personalities can matter less than policies; where, you might say, Kremlinologists parse not the party line, but the bottom line.

Credit where credit is due. Russia has weathered the recent storms well. The authorities have raised interest rates -- not once, but twice, in November and more recently in February -- in response to Asian shockwaves. And now yields on domestic GKOs are hovering around 30 percent: a good deal lower than they were last summer and well below the 45 percent-plus peak of early February. In the meantime, Russia has clocked up another year of exchange rate stability, and inflation now hovers at or below 10 percent year on year -- compared to 48 percent in 1996.

It is because Russia has managed these pressures so effectively that my focus today is not on near-term questions of monetary management but the much longer term questions of institutional reform in Russia -- questions that go to the kind of capitalism Russia is trying to build.

I. The Evolution of Russian Capitalism

Many people invoke what might be called a "stages of capitalism" theory in thinking about the development of a market system in Russia and other emerging economies. This notes that highly concentrated ownership and public-private collusion -- what we might now call "crony capitalism" -- has historically been a more or less inevitable part of moving toward mature market institutions. Thus, the United States in the second half of the 19th century is often
RR-2340

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

compared to the development of Russian capitalism in the final decade of this one.

It is certainly true that modern market institutions take time to develop: removing a price control is easier than building a sound judicial system; unifying an exchange rate is easier than severing old ties between government and business. But the notion that there are stages of capitalist development that must be negotiated should not be grounds for complacency. Nor should it be allowed to slow the progress toward fostering strong market institutions -- in particular, the strong protection of shareholder rights -- that will best promote investment and growth.

Russia aspires to rapid convergence -- to achieving growth rates higher than we ever experienced in the United States. If it is to have a prospect of achieving that rapid growth it is going to need to progress faster in establishing market institutions than we ever did. What is more, the world in which Russia is emerging is now altogether different:

- today's economies are different: they are economies built on the rapid flow of information; on decentralized decision-making; on taking anonymous individuals at their word;

- the expectations of the populace are different, especially in Russia and other transition economies. In the 19th century Americans had only the most minimal conceptions of the state's role. Today, people in these countries have very different demands and expectations. They have spent years in a system in which public schools, public health and infrastructure and the provision of other public goods is taken for granted – and, in a global economy, people are well aware of other governments' ability to provide these things.

- finally, and most critically, we live today in a hotter money world than we have ever done before -- one in which investors choose governments, governments do not choose investors. In a competitive global economy, countries will prosper long-term by building transparent market-based systems that can attract foreign capital and -- most important -- ensure all the country's resources are allocated to the highest return use.

Markets are important. But they are not enough. The central challenge facing Russia is make government a constructive force in the economy and society. That will mean ensuring that government can deliver those things that markets depend on -- but markets alone cannot provide. In particular, only the government can enforce the law. Strong and transparent enforcement of legitimate law is a critical imperative to building a strong civil society -- and, we are learning, an equally critical imperative for achieving sustained growth.

The kind of system Russia needs to build -- the kind of system many reformers have been trying to build – is a system that would emphasize transparency and a clear separation between the state and private enterprise. It would foster independent judiciaries, effective bankruptcy procedures and other formal mechanisms for enforcing contracts and upholding the law. And it would establish the rigorous accounting standards and protection of shareholder rights that today's global investors expect.

II. A Dangerous Alternative: the Risks of Relationship-Based Finance in Russia

In recent years an alternative has often been touted to the kind of transparent, rights-based economic system that I have just described. Instead, many have pointed to a so-called "Asian" approach to government and finance as one better suited to achieve rapid growth in Russia. Such an approach would favor centralized coordination of activity over decentralized market incentives and would involve government targeting of particular industries; a reliance on relationship-driven finance rather than capital markets; and on informal rather than formal enforcement mechanisms,

This "model" undoubtedly caricatures the experience of actual existing Asian economies. And it leaves some very important, universal fundamentals out: not least, high levels of savings and education, sound macroeconomic policy and an effective bureaucracy. Indeed, economists have found it difficult to establish how far these "Asian" features contributed to Asia's justly admired miracle. But one lesson of recent events is clear: these policies can bring a country enormous difficulties down the road.

The dangers of an emphasis on insider interests can only increase when a country lacks -- as in the case of Russia -- most of the other, universal fundamentals that the Asian economies enjoyed for so long. In short, in the wake of the Asian crises, there could be no worse news to come out of Russia than that after years of throwing off one defunct economic model, it was on the verge of entrenching another questionable one.

II An Agenda for Action

All of these considerations point to building a true open market economy in Russia by strengthening three roles of government in particular: collecting taxes; developing an effective financial system; and entrenching the rule of law.

1. Fiscal reform

Oliver Wendell Holmes famously said that taxes are the price we pay for civilization. In that sense, Russia has in many ways been living on borrowed time. As President Yeltsin and others have clearly recognized, at less than 9 percent of GDP, the amount of tax revenues the federal government was able to collect last year is at odds with the role the government and its electorate envision for the state -- indeed, cannot credibly sustain the operations of the most minimal state.

There have been important steps in the right direction in recent months, in efforts to make budgeting more transparent, to achieve much higher rates of tax collection and to advance the enactment a new tax code. But an all-time high (of R57.8 billion, or $9.6 billion) in wage arrears last month and doubts about the ability to repeat January and February's impressive revenue collection rates underline the need to keep up the momentum for change.

The long-term costs of an inability to raise taxes efficiently and balance the books are clear to all in Russia:

- in the reduced investment caused by continued high interest rates;
- in the greater vulnerability to external shocks due to continued dependence on foreign lending;
- in the stunted development of small businesses, a sector that has played a vital role in successful transitions elsewhere, but has been constrained in Russia by the inefficiency and uncertainty associated with the tax system. Anders Aslund has noted that Russia has only one officially registered enterprise for every 60 citizens, as compared with around one in ten in Poland and Hungary;
- and, worst of all, in a reduced faith in government and possible creation of a nationwide culture of nonpayment.

By signing the 1998 budget and signaling both tax reform and reducing arrears as major priorities for the new cabinet President Yeltsin has encouraged greater confidence that the future course of Russian fiscal policy will be less perilous. But following through on these priorities -- and all the other elements of the fiscal action plan negotiated at the end of last year -- will be critical to finally achieving strong investment and growth. And it will be critical to preserving investor confidence at a time when patience for such vulnerabilities is in short supply the world over.

2. Financial sector strengthening

While Russia lacks the high levels of foreign debt and other weaknesses we have seen in Thailand and elsewhere, it shares with them the problem of a weak banking sector. This carries a cost in the markets today by increasing perceived market risks. But the highest penalty is more long-term -- in slower growth due to the inability to intermediate the long-term credit needed for rapid investment.

By any reckoning in its first years of reform Russia has been overbanked and under regulated. As a result, credit decisions and portfolios remain shackled to a short-term horizon, with only an amount equal to 10 percent of GDP last year in lending to the nonfinancial sector. Meanwhile borrowers are stuck trying to fund working capital and investment funds from other sources -- notably arrears.

Russia's central bank has made real progress in recent months toward putting a stronger long-term system in place: for example, in the creation of a special regulatory division for monitoring large banks, in the passing of a new bankruptcy law; and in continued progress toward consolidating and liquidating many weak banks.

In this context we will especially welcome the central bank continuing to implement its 1997-99 schedule for gradually tightening prudential norms for risk and liquidity, with the overall goal of reaching Basle standards for most banking norms by the end of the century. And we look forward to seeing Russia follow through on the commitment to introduce international accounting standards by year-end. If one were writing a history of the American capital market I would suggest to you that the single most important innovation shaping that capital market was the idea of generally accepted accounting principles.

3. Entrenching an Effective Rule of Law

The benefits of fostering high levels of transparency can be seen across the spectrum of reforms that will be needed to entrench effective government in Russia. As we have seen again and again in the emerging market economies in recent years, governments can gain powerful insurance against market setbacks simply by giving people clarity -- not just about the intent of policy but in its execution. By the same token, governments who surprise investors once with the discovery that policy has not been quite what it seemed lose precious credibility.

The same will hold true in the government's completion of the privatization program, in the reduction and regularization of regulation and the basic definition and protection of property rights -- including shareholder rights -- all major priorities if Russia is a develop an environment to foster and attract investment. Once again, the challenge here is not simply to uphold these rights -- but to be seen to do so.

In this context the open and competitive bidding process leading to the sale of Svyazinvest last year was rightly been hailed as a turning point. Equally encouraging was Dmitry Vasiliev, the chairman of the Federal Commission for the Securities market's recent successful defense of minority shareholders in Sidanco, the oil firm, against the company's attempt to dilute their stake.

And yet, the very publicity attached to these two events shows the need to continue this progress so that fears of an entrenched "gangster capitalism" in Russia can finally to be laid to rest. Russians must have faith that Joseph Proudhon was wrong -- property is *not* theft. And they must be able to see with their own eyes the profound difference between being for capitalism, on the one hand, and being for help to capitalists on the other.

III The Road Ahead

It has long been said that Russia -- along with nearly all the transition economies -- has passed the point of no return. The market is here for the duration. But there remains the question of which kind of market it will be. And there is no inevitability about the development of the kind of transparent, rule-based system that will best promote growth. Any vacuum created by weak government institutions and a partial rule of law is likely to be filled with the development of other mechanisms and other ways of doing business.

What is required is a positive determination to establish he institutions of an open, free market economy -- one that can finally deliver the rapid and broad-based growth in living standards the Russian people deserve. President Yeltsin sounded many of the same themes a year ago in his State of the Federation Address and again in this year's address in February. In these election-free years he and his new team will have a rare opportunity to make good on that agenda. It is in Russia's interest, it is in the United States' interest, and it is in the world's interest that 1988 be the year that this opportunity is finally seized. Thank you.

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
April 1, 1998

Contact: Dan Israel
(202) 622-2960

STATEMENT OF TREASURY SECRETARY ROBERT E. RUBIN

I welcome the Senate Finance Committee's unanimous vote in support of the IRS reform bill last night. Reform legislation is an important part of the Clinton administration's intense efforts to change and reform the IRS. The American taxpayer will be better served by the additional rights, expanded electronic filing, better customer service and oversight measures laid out in this legislation. The Committee's bill also improves IRS Commissioner Charles Rossotti's flexibility in selecting and managing personnel.

The Committee's vote was a constructive step forward. We look forward to working with Congress to resolve a number of issues of concern as the process moves forward.

-30-

RR-2341

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.
April 1, 1998

CONTACT: Office of Financing
202/219-3350

TREASURY TO AUCTION $8,000 MILLION OF 30-YEAR INFLATION-INDEXED BONDS

The Treasury will auction $8,000 million of 30-year inflation-indexed bonds to raise cash.

Amounts bid by Federal Reserve Banks for their own accounts, and as agents for foreign and international monetary authorities will be added to the offering.

The auction will be conducted in the single-price auction format. All competitive and noncompetitive awards will be at the highest yield of accepted competitive tenders.

The bonds being offered today are eligible for the STRIPS program.

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

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

oOo

Attachment

RR-2342

April 1, 1998

HIGHLIGHTS OF TREASURY OFFERINGS TO THE PUBLIC OF 30-YEAR INFLATION INDEXED BONDS TO BE ISSUED APRIL 15, 1998

<u>Offering Amount</u> .... $8,000 million

<u>Description of Offering</u>:

Term and type of security 30-year inflation-indexed bonds
Series .... Bonds of April 2028
CUSIP number .... 912810 FD 5
Auction date .... April 8, 1998
Issue date .... April 15, 1998
Dated date .... April 15, 1998
Maturity date .... April 15, 2028
Interest rate .... Determined based on the highest bid
Real yield .... Determined at auction
Interest payment dates .... October 15 and April 15
Minimum bid amount $1,000
Multiples $1,000
Accrued interest payable by investor .... None
Premium or discount Determined at auction

<u>STRIPS Information</u>:

Minimum amount required ... Determined at auction
Corpus CUSIP number 912803 BN 2

<u>Due Dates and CUSIP numbers for TINTS</u>

	<u>912833</u>		<u>912833</u>		<u>912833</u>
October 15, 1998	UC 2	October 15,2010	VC 1	October 15,2022	WC 0
April 15, 1999	UD 0	April 15, 2011	VD 9	April 15, 2023	WD 3
October 15, 1999	UE 8	October 15, 2011	VE 7	October 15, 2023	WE 5
April 15, 2000	UF 5	April 15, 2012	VF 4	April 15, 2024	WF 3
October 15, 2000	UG 3	October 15, 2012	VG 2	October 15, 2024	WG 1
April 15, 2001	UH 1	April 15, 2013	VH 0	April 15, 2025	WH 9
October 15, 2001	UJ 7	October 15, 2013	VJ 6	October 15, 2025	WJ 5
April 15, 2002	UK 4	April 15, 2014	VK 3	April 15, 2026	WK 2
October 15, 2002	UL 2	October 15, 2014	VL 1	October 15, 2026	WL 0
April 15, 2003	UM 0	April 15, 2015	VM 9	April 15, 2027	WM 8
October 15, 2003	UN 8	October 15, 2015	VN 7	October 15, 2027	WN 6
April 15, 2004	UP 3	April 15, 2016	VP 2	April 15, 2028	WP 1
October 15, 2004	UQ 1	October 15, 2016	VQ 0		
April 15, 2005	UR 9	April 15, 2017	VR 8		
October 15, 2005	US 7	October 15, 2017	VS 6		
April 15, 2006	UT 5	April 15, 2018	VT 4		
October 15, 2006	UU 2	October 15, 2018	VU 1		
April 15, 2007	UV 0	April 15, 2019	VV 9		
October 15, 2007	UW 8	October 15, 2019	VW 7		
April 15, 2008	UX 6	April 15, 2020	VX 5		
October 15, 2008	UY 4	October 15, 2020	VY 3		
April 15, 2009	UZ 1	April 15, 2021	VZ 0		
October 15, 2009	VA 5	October 15, 2021	WA 4		
April 15, 2010	VB 3	April 15, 2022	WB 2		

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

<u>Submission of Bids</u>:

Noncompetitive bids ....Accepted in full up to $5,000,000 at the highest accepted yield.
Competitive bids ....(1) Must be expressed as a real yield with three decimals, e.g., 3.123%.
(2) Net long position for each bidder must be reported when the sum of the total bid amount, at all yields, and the net long position is $2 billion or greater.
(3) Net long position must be determined as of one half-hour prior to the closing time for receipt of competitive tenders.

<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

<u>Indexing Information:</u>

CPI Base Reference Period 1982-1984
Ref CPI 04/15/1998 ....161.74000
Index Ratio 4/15/1998 ....1.00000

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
April 01, 1998

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-DAY BILLS

Term:	13-Day Bill
Issue Date:	April 03, 1998
Maturity Date:	April 16, 1998
CUSIP Number:	9127946L3

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate 1/	Price
Low	5.45 %	5.54 %	99.803
High	5.45 %	5.54 %	99.803
Average	5.45 %	5.54 %	99.803

Tenders at the high discount rate were allotted 93%.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 70,638,000	$ 19,124,520
Noncompetitive	0	0
PUBLIC SUBTOTAL	70,638,000	19,124,520
Federal Reserve	0	0
Foreign Official Inst.	0	0
TOTAL	$ 70,638,000	$ 19,124,520

1/ Equivalent coupon-issue yield.

RR-2343

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

EMBARGOED UNTIL 8 P.M. EST
Text As Prepared for Delivery
April 2, 1998

**The Honorable John D. Hawke, Jr.
Under Secretary of the Treasury for Domestic Finance
to the 1998 UNC School of Law Banking Institute
Chapel Hill, North Carolina**

While the organizers of this impressive program could not possibly have anticipated it, this week could not be a more appropriate -- or perhaps inappropriate, depending on your point of view -- time to talk about Financial Modernization. Just two days ago an effort to bring a long debated and delicately balanced Financial Modernization bill to the Floor of the House of Representatives failed. While supporters of the bill gamely announced that the effort was not over, and that they would return to the drawing board after the Recess, the prospects for legislation in this Congress look exceedingly dim.

Why did the effort fail -- an effort that had unprecedented momentum behind it in the House, with the Republican leadership mobilizing forcefully to craft a compromise package and take it to the Floor?

There is, of course, one narrow and easy answer that some would offer: it was a tactical miscalculation to link Financial Modernization with another bill intended to overturn the Supreme Court's recent decision in the credit union case.

The Banking Committee, in a model bipartisan effort, had voted out a credit union bill, and Members were anxious to vote on that bill before they went home for the Recess. While there was an element of controversy to the bill, the Committee had crafted a reasonable and balanced proposal, and the banking industry had largely resigned itself to a losing fight against the bill.

RR-2344

On the other hand, the great preponderance of Members did not want to vote on H.R. 10, the Financial Modernization bill. H.R. 10, despite the Leadership efforts to design a compromise (some would say <u>because</u> of the compromise that was designed) was riddled with controversy. Members were being besieged on all sides, and any vote they might make was likely to offend some significant portion of their constituency.

Driven by the Leadership, the Rules Committee combined the two bills and sent them to the Floor under a narrowly tailored rule that permitted only a few selected amendments to be presented for a Floor vote, and that held out the prospect of forcing Members to vote for the controversial Financial Modernization provisions as the price of getting to vote on the credit union measure.

Members on both sides of the aisle were upset by this procedure, and hardly had debate started on adoption of the rule, when the Chairman of the Rules Committee, in a surprise statement that reminded me of Lyndon Johnson's announcement that he was not going to run again, withdrew the rule from further consideration. Yesterday the credit union bill was split apart and brought separately to the Floor, where it passed by a vote of 411 to 8 -- a vote that speaks volumes about the wisdom of the original tactic.

But that is the easy explanation. What was it that really brought the Financial Modernization train to a halt? It is tempting to say that those who fashioned the compromise bill leaned too far in one direction or the other, and thereby created strong opposition. But the fact is that virtually any movement toward the position of a disaffected interest would have created a countervailing problem on the other side. Does this mean that it is impossible to draft a Financial Modernization bill that would command a strong consensus of support among the various interested parties? I would like to think not, but I must say that the recent experience does not hold out great cause for optimism.

Just consider the major conflicts presented:

In the area of insurance, banking organizations were seeking an unqualified right to sell and underwrite insurance, free from state laws that might discriminate against bank-related insurance activities. Independent insurance agents wanted to retain the protections they have under many state laws, and to that end wanted to curtail the Comptroller of the Currency's ability to deem discriminatory state laws to be preempted. The agents also wanted to protect their franchises against de novo expansion of the agency activities of national banks, while banks wanted the ability to expand without the need to buy out an existing agency.

Underwriting companies wanted assurance that banks would not be able to offer insurance-like products in the bank itself, where they might be deemed to be immune from state insurance regulation, while the banks wanted the ability to offer what they deemed to be traditional banking products, even though they might partake of some aspects of insurance. This confrontation led to unending efforts to define what constitutes insurance, how disputes over that issue should be resolved, and what deference, if any, should be given to the Comptroller of the Currency in the process.

A similar kind of debate was carried on in the area of securities activities. Banks wanted the freedom to continue to offer products in the bank that they had traditionally offered, even though they might be considered be some to be securities. Securities firms and the SEC wanted to limit direct bank securities activities to assure a level competitive playing field and comparable functional regulation.

The thrift charter became a major focal point for debate. The banking industry lobbied hard for an elimination of the thrift charter, while the thrift industry understandably wanted to continue as is. The unitary thrift holding company became a major target of attack from a number of quarters. Those opposed to any mixing of banking and commerce wanted the unitary holding company -- which enjoys the right to engage in any activity it chooses, financial or nonfinancial, significantly curtailed. As nonbank financial services firms began to focus more attention on the flexibility of the thrift charter as a possible vehicle for their own expansion into the business of accepting insured deposits, even the commercial banking industry became concerned about the unitary format -- which has, of course, existed for decades with no apparent concern from the banking industry.

The "banking and commerce" issue was also a focus of controversy in the consideration of whether companies owning banks should be permitted to engage in any nonfinancial activities. Some said absolutely none; others -- particularly those nonbank financial services firms that already had some nonfinancial activities -- argued for a reasonable "basket" leeway to be able to continue some level of nonfinancial business.

Consumer groups and community organizations weighed in heavily against H.R. 10, arguing for stronger consumer protections, for mandated "lifeline" banking, and for extension of the Community Reinvestment Act to the nonbank affiliates of banks in the new world of expanded activities under Financial Modernization. Banks, on the other hand, opposed the imposition of such new requirements.

There were even strong differences of view among the various federal agencies having an interest in the subject. The Comptroller of the Currency and the Treasury Department argued that all banks should be permitted the option of engaging in any newly authorized financial activities either through holding company affiliates or through operating subsidiaries of the bank, in either case subject to strong and equivalent safety-and-soundness protections for the bank. The Federal Reserve contended that new financial activities should be conducted only in holding company affiliates, under their jurisdiction, because only in that way could the spread of an alleged "safety net subsidy" be contained.

These are imposing confrontations -- and there are many more contentious issues I have not described. Will it ever be possible to achieve real progress toward Financial

Modernization in the face of such controversy. I continue to be hopeful, but it will require some changes of attitude and approach on almost everyone's part.

First and foremost, we cannot hope to have real Financial Modernization unless that subject is approached with a universal commitment to eliminate barriers to full competition. Participants in the financial services marketplace have to come to the realization that the broad, long term interests of all providers can only be served by letting go of special interest protections intended to segment markets. Consumers are demanding the convenience of one-stop shopping and the benefits of increased competition, and the force of the marketplace cannot be held back by corralling providers into separate pens.

Second, the principle of functional regulation has to be accepted as a governing precept. Similar activities should be subject to the same regulatory regimes. To be sure, there will be definitional difficulties at the margin, and due consideration should be given to the grandfathering of activities that have historically been conducted in a different mode. However, these issues must be approached not from the perspective of maintaining particular competitive advantages, but with a view toward achieving broad functional regulation.

Third, the issues being raised by consumer and community groups cannot be dismissed. Financial Modernization legislation must assure that in bringing the benefits of increased competition to consumers -- which is really what this effort is all about -- we are not subjecting consumers to greater abuses and that we are not weakening the benefits of the Community Reinvestment Act.

Fourth, we must assure that the safety and soundness of our financial system is not impaired as we expand business opportunities for financial services firms.

Finally, we must assure that we do not, in the name of serving other purposes, upset the balance we presently have in the dual banking system, or effect fundamental shifts in the roles of the agencies involved in the process of regulating and supervising our financial industry.

I do not by any means suggest that our objective should be to preserve a regulatory status quo or to protect the turf of particular agencies, any more than we should preserve those barriers that inhibit competition among financial institutions. The subject of regulatory restructuring is unquestionably an appropriate topic for Congress -- as painful as it seems to be every time it comes up. More specifically, the subject of what the appropriate regulatory structure should be in the brave new world of Financial Modernization is a topic of great importance. My point is simply that such far reaching issues should be addressed directly and openly, on the merits, with due consideration for the implications of proposed changes. They should not be subsumed, as the compromise bill unfortunately does, in discriminatory treatment of particular charters or formats, or clothed in arcane argument that covers their real implications.

It may be that these preconditions can never be satisfied; it may be that the marketplace must evolve further before we can achieve the kind of consensus that Congress needs to act comfortably. One is reminded that Congress avoided the subject of interstate banking for many years, and only addressed it after the states had made it largely academic through the innovations that started in the mid-1980s.

Surely, much more work is needed on H.R. 10 before it can come close to commanding a consensus. The Statement of Administration Policy transmitted to the Congress on Tuesday affirmed that the Secretary of the Treasury would recommend that the bill be vetoed if it were presented to the President in its present form. This strong statement was based on our conviction that the bill would:

- stifle innovation and efficiency in the national banking system;
- undermine the Community Reinvestment Act by forcing financial innovation to occur in holding company affiliates rather than in bank subsidiaries;
- diminish the ability of communities and consumers to benefit from the financial system;
- eliminate advantageous features of the present thrift charter; and
- impose needless costs on small banks.

The Chairman of the Senate Banking Committee has made clear in the past that he will only take up a Financial Modernization bill if it passes the House with a strong bipartisan majority. While the House Leadership deserves credit for the strength of the drive they mounted to move this bill to the Floor, the events of this week seem to make clear that any further effort to push the bill in its current form will confront continued conflict and opposition. Whether it is possible to accomplish the kinds of repairs that are necessary in the time remaining in this Congress is problematic, but it seems clear that in its present form the bill simply cannot command the kind of support needed to achieve a strong bipartisan majority. No constructive purpose can be served by a continued push for the present proposal.

Perhaps the best we can hope for is that by maintaining things as they are, the normal drive of market participants in seeking out ways to compete more effectively, aided by a commitment on the part of regulators to experiment and innovate, we will move toward the kind of environment that will make it easy for Congress simply to ratify what the marketplace presents it with.

--30--

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
April 2, 1998

Contact: Office of Financing
(202) 219-3350

TREASURY'S 30-YEAR INFLATION-INDEXED BONDS
APRIL REFERENCE CPI NUMBERS AND DAILY INDEX RATIOS

Public Debt announced today the reference Consumer Price Index (CPI) numbers and the daily index ratios for the month of April for the 30-year Treasury inflation-indexed bonds of April 2028. 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 CPI's (Ref CPI) and index ratios, this release provides the non-seasonally adjusted CPI-U for the prior three-month period.

This information is available through the Treasury's Office of Public Affairs automated fax system by calling 202-622-2040 and requesting document number 2345. The information is also available on the Internet at Public Debt's web site (http://www.publicdebt.treas.gov).

The information for May is expected to be released on April 14, 1998.

o0o

PA-321

RR-2345

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

TREASURY 30-YEAR INFLATION-INDEXED BONDS	
DESCRIPTION:	Bonds of April 2028
CUSIP:	912810FD5
AUCTION DATE:	April 8, 1998
DATED DATE:	April 15, 1998
ORIGINAL ISSUE DATE:	April 15, 1998
MATURITY DATE:	April 15, 2028
Ref CPI on DATED DATE:	161.74000
TABLE FOR MONTH OF:	April 1998
NUMBER OF DAYS IN MONTH:	30

CPI-U (NSA) December 1997	161.3
CPI-U (NSA) January 1998	161.6
CPI-U (NSA) February 1998	161.9

Ref CPI and Index Ratios for April 1998:

Month	Calendar Day	Year	Ref CPI	Index Ratio
April	1	1998	161.60000	
April	2	1998	161.61000	
April	3	1998	161.62000	
April	4	1998	161.63000	
April	5	1998	161.64000	
April	6	1998	161.65000	
April	7	1998	161.66000	
April	8	1998	161.67000	
April	9	1998	161.68000	
April	10	1998	161.69000	
April	11	1998	161.70000	
April	12	1998	161.71000	
April	13	1998	161.72000	
April	14	1998	161.73000	
April	15	1998	161.74000	1.00000
April	16	1998	161.75000	1.00006
April	17	1998	161.76000	1.00012
April	18	1998	161.77000	1.00019
April	19	1998	161.78000	1.00025
April	20	1998	161.79000	1.00031
April	21	1998	161.80000	1.00037
April	22	1998	161.81000	1.00043
April	23	1998	161.82000	1.00049
April	24	1998	161.83000	1.00056
April	25	1998	161.84000	1.00062
April	26	1998	161.85000	1.00068
April	27	1998	161.86000	1.00074
April	28	1998	161.87000	1.00080
April	29	1998	161.88000	1.00087
April	30	1998	161.89000	1.00093

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
April 3, 1998

Contact: Kelly Crawford
(202) 622-2960

STATEMENT BY TREASURY SECRETARY ROBERT E. RUBIN
ON MEETING WITH KOREAN FINANCE MINISTER LEE

Finance Minister Lee and I had a good meeting today. We discussed the substantial progress South Korea has made over the past three months in stabilizing its financial situation. I praised the efforts that President Kim Dae Jung and his government are making to bring about decisive change in Korea's economy. We spoke about the recent success of the government's effort to restructure a vast majority of the banking sector's short-term international debt, the growth of external reserves, and the nation's upcoming bond issue. All of these are important steps in the process of normalizing Korea's access to the international capital markets.

Minister Lee and I agreed that while many challenges have been successfully met, difficult structural reforms lie ahead. We also agreed on the importance of ensuring that Korea sustains strong macroeconomic policies. This will provide the fastest and surest route to recovery and improvements in living standards for the Korean people.

-30-

RR-2346

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

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

EMBARGOED UNTIL 10:45 A.M. EST
April 6, 1998

Contact: Office of Public Affairs
(202) 622-2960

TREASURY PROHIBITS IMPORTATION OF CERTAIN SEMIAUTOMATIC ASSAULT RIFLES

New Prohibition Applies to Rifles that Accept Large Capacity Military Magazines

Treasury Secretary Robert E. Rubin announced today a prohibition on the importation of modified, semiautomatic assault rifles with the ability to accept large capacity military magazines.

Today's announcement follows a comprehensive review of the importation of approximately 59 modified, semiautomatic assault rifles conducted by Treasury and its Bureau of Alcohol, Tobacco and Firearms (ATF). The review was directed by President Clinton and Secretary Rubin last November, and stemmed from concerns that many new, dangerous semiautomatic weapons had been developed in the nearly 10 years since the last review.

"President Clinton and this Administration are committed to rigorous enforcement of laws designed to keep dangerous weapons off our streets," said Rubin. "With this decision, we can further reduce the flow of weapons that have no legitimate use in our society."

Under the 1968 Gun Control Act, the Treasury Department is required to restrict the importation of firearms unless they are determined to be "particularly suitable for or readily adaptable to sporting purposes."

In 1989, the "sporting purposes" provision led ATF to ban the importation of several semiautomatic versions of assault weapons possessing military features such as bayonet mounts, pistol grips, night sights and grenade launchers. After the 1989 prohibition, certain semiautomatic assault rifles that had failed the sporting purposes test were modified to remove all military features except the ability to accept a large capacity military magazine (LCMM) that holds more than 10 rounds. The LCMM rifles are models based on AK-47, FN-FAL, HK 91 and 93, Uzi and SIG SG550 military assault rifles.

This review concluded that the original prohibition is correct and that military-style semiautomatic rifles are not importable. This review further concluded that firearms with the ability to accept a large capacity magazine designed and produced for a military assault weapon should be banned. The review draws support from Congress and the Administration's 1994 decision to ban large capacity military magazines on the grounds that they served "combat-functional ends" and were attractive to criminals.

RR-2347

"We have no desire to take guns away from hunters, or other legitimate users. We do, however, want to protect Americans from the violence that can result from these semiautomatic weapons," said Rubin.

Up to 1.6 million firearms whose importation had been suspended during the review may be affected by this decision. Importers will be notified of this decision in writing and given an opportunity to respond.

The Study on the Sporting Suitability of Modified Semiautomatic Assault Rifles is available through the Treasury Public Affairs Office at (202) 622-2960 or via the Internet at www.atf.treas.gov after 12:00 p.m. EDT Monday, April 6.

-30-

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

MEDIA ADVISORY
April 6, 1998

Contact: Beth Weaver
(202) 622-2960

PHOTO AVAILABILITY OF SEMIAUTOMATIC ASSAULT RIFLES

Following the White House announcement today regarding the importation of assault rifles, Treasury will make available certain of the modified, semiautomatic assault rifles for interested media to view and photograph.

The assault rifles will be displayed in the Bell entrance lobby of the Treasury Department (the entrance located between the White House and Treasury on East Executive Avenue) from 11:30 a.m. to 12:30 p.m.

Publication-quality digital photographs (high resolution 300dpi jpeg) will be available on the World Wide Web at www.ustreas.gov/press/ at noon.

-30-

RR-2348

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
April 1, 1998

Contact: Hamilton Dix, Treasury (202) 622-2960
Bob Moore, Federal Reserve (202) 452-3215

RUBIN AND GREENSPAN TO UNVEIL NEW $20 DESIGN

The design for the Series 1996 $20 note, the first redesigned U.S. currency note that most Americans will use on a daily basis, will be unveiled next month by U.S. Treasury Secretary Robert E. Rubin and Federal Reserve Board Chairman Alan Greenspan.

Secretary Rubin and Chairman Greenspan will unveil the new bill at 11 a.m. on Wednesday, May 20, at the Bureau of Engraving and Printing, 14th and C Streets, S.W., Washington, D.C.

The new $20 note will enter circulation in the fall of 1998. It is commonly used in daily commerce and is the bill most often dispensed by Automated Teller Machines (ATMs). The $20 note is the third in the U.S. currency series to include new and modified security features to deter counterfeiting. The Series 1996 $100 was issued in March 1996 and the redesigned $50 in October 1997.

Through an aggressive public education effort, Treasury and the Federal Reserve expect to provide millions of bank tellers, retailers and other cash handlers with printed materials and will offer tent cards, training videos and CD-Roms to ensure a smooth transition when the new note is issued. In addition, special training seminars and materials will explain how cash handlers can and should discourage counterfeiting by closely examining all the notes they handle.

Like the new $50 note, the redesigned $20 note will include a large dark numeral on a light background on the back of the note that will make it easier for people with low vision to identify the note. All consequent denominations ($10, $5 and $1) will include this low-vision feature, as will the future redesign of the $100 note.

Further information on the Washington event, including satellite coordinates, as well as background information on the currency redesign program, will be available closer to the event date.

-30-

RR-2349

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
April 6, 1998

Contact: Peter Hollenbach
(202) 219-3302

BUREAU OF THE PUBLIC DEBT AIDS SAVINGS BONDS OWNERS AFFECTED BY TORNADOES IN ILLINOIS

The Bureau of Public Debt took action to assist victims of tornadoes in Illinois by expediting the replacement or payment of United States Savings Bonds for owners in the affected areas. The emergency procedures are effective immediately for paying agents and owners in those areas of Illinois affected by the storms. These procedures will remain in effect through May 31, 1998.

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

At this time, only Coles County is involved. Should additional counties be declared disaster areas the emergency procedures for savings bonds owners will go into effect for those areas.

The replacement of bonds lost or destroyed will also be expedited by Public Debt. Bond owners should complete form PD-1048, available at most financial institutions or by writing the Minneapolis Federal Reserve Bank's Savings Bond Customer Service Department, 250 Marquette, Minneapolis, Minnesota 55480; phone (612) 340-2345. This form can also be downloaded from Public Debt's website at: www.publicdebt.treas.gov. Bond owners should include as much information as possible about the lost bonds on the form. This information should include how the bonds were inscribed, social security number, approximate dates of issue, bond denominations and serial numbers if available. The completed form must be certified by a notary public or an officer of a financial institution. Completed forms should be forwarded to Public Debt's Savings Bond Operations Office located at 200 Third St., Parkersburg, West Virginia 26106-1328. Bond owners should write the word "STORMS" on the front of their envelopes, to help expedite the processing of claims.

oOo

RR-2350

PUBLIC DEBT NEWS

)epartment of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE
April 6, 1998

Contact: Peter Hollenbach
(202) 219-3302

BUREAU OF THE PUBLIC DEBT AIDS SAVINGS BONDS OWNERS AFFECTED BY TORNADOES IN MINNESOTA

The Bureau of Public Debt took action to assist victims of tornadoes in Minnesota by expediting the replacement or payment of United States Savings Bonds for owners in the affected areas. The emergency procedures are effective immediately for paying agents and owners in those areas of Minnesota affected by the storms. These procedures will remain in effect through May 31, 1998.

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

Minnesota counties involved are Brown, Le Sueur and Nicollet. Should additional counties be declared disaster areas the emergency procedures for savings bonds owners will go into effect for those areas.

The replacement of bonds lost or destroyed will also be expedited by Public Debt. Bond owners should complete form PD-1048, available, at most financial institutions, or by writing the Minneapolis Federal Reserve Bank's Savings Bond Customer Service Department, 250 Marquette, Minneapolis, Minnesota 55480; phone (612) 340-2345. This form can also be downloaded from Public Debt's website at: www.publicdebt.treas.gov. Bond owners should include as much information as possible about the lost bonds on the form. This information should include how the bonds were inscribed, social security number, approximate dates of issue, bond denominations and serial numbers if available. The completed form must be certified by a notary public or an officer of a financial institution. Completed forms should be forwarded to Public Debt's Savings Bond Operations Office located at 200 Third St., Parkersburg, West Virginia 26106-1328. Bond owners should write the word "STORMS" on the front of their envelopes, to help expedite the processing of claims.

oOo

RR-2351

PUBLIC DEBT NEWS

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

EMBARGOED FOR RELEASE AT 3:00 PM
April 6, 1998

Contact: Peter Hollenbach
(202) 219-3302

PUBLIC DEBT ANNOUNCES ACTIVITY FOR SECURITIES IN THE STRIPS PROGRAM FOR MARCH 1998

The Bureau of the Public Debt announced activity figures for the month of March 1998, of securities within the Separate Trading of Registered Interest and Principal of Securities program (STRIPS).

Dollar Amounts in Thousands

Principal Outstanding (Eligible Securities)	$1,282,989,541
Held in Unstripped Form	$1,049,273,352
Held in Stripped Form	$233,716,189
Reconstituted in March	$9,538,493

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.

oOo

RR-2352

TABLE VI - HOLDINGS OF TREASURY SECURITIES IN STRIPPED FORM, MARCH 31, 1998

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 Bonds:							
CUSIP:	Interest Rate:						
912810 DM7	11-5/8	912803 AB9	11/15/04	8,301,806	4,935,406	3,366,400	214,400
DQ8	12	AD5	05/15/05	4,260,758	2,726,358	1,534,400	42,500
DR6	10-3/4	AG8	08/15/05	9,269,713	7,284,113	1,985,600	61,600
DU9	9-3/8	AJ2	02/15/06	4,755,916	4,747,916	8,000	2,816
DN5	11-3/4	912800 AA7	11/15/14	6,005,584	2,722,384	3,283,200	70,400
DP0	11-1/4	912803 AA1	02/15/15	12,667,799	11,356,119	1,311,680	457,120
DS4	10-5/8	AC7	08/15/15	7,149,916	6,605,276	544,640	69,440
DT2	9-7/8	AE3	11/15/15	6,899,859	5,475,859	1,424,000	132,800
DV7	9-1/4	AF0	02/15/16	7,266,854	6,822,854	444,000	316,000
DW5	7-1/4	AH6	05/15/16	18,823,551	18,565,151	258,400	304,000
DX3	7-1/2	AK9	11/15/16	18,864,448	18,054,768	809,680	375,040
DY1	8-3/4	AL7	05/15/17	18,194,169	7,853,529	10,340,640	452,000
DZ8	8-7/8	AM5	08/15/17	14,016,858	8,655,258	5,361,600	1,080,000
EA2	9-1/8	AN3	05/15/18	8,708,639	2,974,239	5,734,400	86,400
EB0	9	AP8	11/15/18	9,032,870	1,811,270	7,221,600	84,000
EC8	8-7/8	AQ6	02/15/19	19,250,798	5,129,198	14,121,600	292,800
ED6	8-1/8	AR4	08/15/19	20,213,832	17,865,992	2,347,840	278,400
EE4	8-1/2	AS2	02/15/20	10,228,868	5,399,268	4,829,600	356,000
EF1	8-3/4	AT0	05/15/20	10,158,883	3,186,403	6,972,480	84,000
EG9	8-3/4	AU7	08/15/20	21,418,606	5,107,246	16,311,360	329,920
EH7	7-7/8	AV5	02/15/21	11,113,373	10,074,973	1,038,400	115,200
EJ3	8-1/8	AW3	05/15/21	11,958,888	4,313,448	7,645,440	26,560
EK0	8-1/8	AX1	08/15/21	12,163,482	5,310,362	6,853,120	325,120
EL8	8	AY9	11/15/21	32,798,394	7,788,044	25,010,350	734,550
EM6	7-1/4	AZ6	08/15/22	10,352,790	8,755,190	1,597,600	42,400
EN4	7-5/8	BA0	11/15/22	10,699,626	2,994,026	7,705,600	92,800
EP9	7-1/8	BB8	02/15/23	18,374,361	10,750,361	7,624,000	400,000
EQ7	6-1/4	BC6	08/15/23	22,909,044	18,234,996	4,674,048	111,904
ES3	7-1/2	BD4	11/15/24	11,469,662	3,372,942	8,096,720	579,440
ET1	7-5/8	BE2	02/15/25	11,725,170	2,657,970	9,067,200	276,800
EV6	6-7/8	BF9	08/15/25	12,602,007	10,572,567	2,029,440	43,200
EW4	6	BG7	02/15/26	12,904,916	12,565,816	339,100	43,000
EX2	6-3/4	BH5	08/15/26	10,893,818	9,959,418	934,400	266,400
EY0	6-1/2	BJ1	11/15/26	11,493,177	11,039,977	453,200	75,200
EZ7	6-5/8	BK8	02/15/27	10,456,071	8,708,871	1,747,200	20,800
FA1	6-3/8	BL6	08/15/27	10,735,756	10,519,756	216,000	120,000
FB9	6-1/8	BM4	11/15/27	22,518,539	22,398,539	120,000	0
Total Treasury Bonds				480,658,801	307,295,863	173,362,938	8,363,010

Loan Description			Corpus STRIP CUSIP	Maturity Date	Principal Amount Outstanding in Thousands			Reconstituted This Month [21]
					Total Outstanding	Portion Held in Unstripped Form	Portion Held in Stripped Form	
Treasury Notes								
CUSIP	Series	Interest Rate						
912827 WE8	B	9	912820 AN7	05/15/98	9,165,387	6,184,987	2,980,400	25,600
WN8	C	9-1/4	AP2	08/15/98	11,342,646	7,177,046	4,165,600	16,800
WW8	D	8-7/8	AQ0	11/15/98	9,902,875	5,408,475	4,494,400	22,400
XE7	A	8-7/8	AR8	02/15/99	9,719,623	7,423,623	2,296,000	113,600
XN7	B	9-1/8	AS6	05/15/99	10,047,103	6,519,103	3,528,000	8,000
XW7	C	8	AT4	08/15/99	10,163,644	6,964,019	3,199,625	45,725
3H3	AK	5-3/4	CB1	09/30/99	17,487,287	17,269,687	217,600	0
3K6	AL	5-5/8	CD7	10/31/99	16,823,947	16,606,347	217,600	0
YE6	D	7-7/8	AU1	11/15/99	10,773,960	6,837,960	3,936,000	27,200
3P5	AM	5-5/8	CG0	11/30/99	17,051,198	16,865,598	185,600	0
3R1	AN	5-5/8	CJ4	12/31/99	16,747,060	16,647,860	99,200	0
3U4	Y	5-3/8	CM7	01/31/00	17,502,036	17,502,036	0	0
YN6	A	8-1/2	AV9	02/15/00	10,673,033	8,159,033	2,514,000	83,200
3Y6	Z	5-1/2	CR6	02/29/00	17,776,125	17,776,125	0	0
4A7	AB	5-1/2	CT2	03/31/00	17,205,123	17,205,123	0	0
YW6	B	8-7/8	AW7	05/15/00	10,496,230	5,627,430	4,868,800	0
ZE5	C	8-3/4	AX5	08/15/00	11,080,646	7,422,086	3,658,560	296,160
ZN5	D	8-1/2	AY3	11/15/00	11,519,682	7,335,682	4,184,000	26,000
3M2	X	5-3/4	CF2	11/15/00	16,036,088	16,036,088	0	0
ZX3	A	7-3/4	AZ0	02/15/01	11,312,802	7,960,002	3,352,800	12,000
3W0	S	5-3/8	CP0	02/15/01	15,367,153	15,367,153	0	0
A85	B	8	BA4	05/15/01	12,398,083	8,924,233	3,473,850	58,750
B92	C	7-7/8	BB2	08/15/01	12,339,185	8,827,185	3,512,000	54,400
D25	D	7-1/2	BC0	11/15/01	24,226,102	20,001,622	4,224,480	61,680
F49	A	7-1/2	BD8	05/15/02	11,714,397	10,001,517	1,712,880	16,800
G55	B	6-3/8	BE6	08/15/02	23,859,015	22,516,615	1,342,400	20,800
3J9	M	5-7/8	CC9	09/30/02	12,806,814	12,771,614	35,200	0
3L4	N	5-3/4	CE5	10/31/02	11,737,284	11,675,684	61,600	16,800
3Q3	P	5-3/4	CH8	11/30/02	12,120,580	11,920,580	200,000	0
3S9	Q	5-5/8	CK1	12/31/02	12,052,433	12,052,433	0	0
3V2	C	5-1/2	CN5	01/31/03	13,100,643	13,100,643	0	0
J78	A	6-1/4	BF3	02/15/03	23,562,691	23,075,939	486,752	58,816
3Z3	D	5-1/2	CS4	02/28/03	13,670,354	13,626,354	44,000	0
4B5	E	5-1/2	CU9	03/31/03	14,172,899	14,172,899	0	0
L83	B	5-3/4	BG1	08/15/03	28,011,028	27,579,828	431,200	0
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	14,337,172	103,200	209,600
Q88	C	7-1/4	BK2	08/15/04	13,346,467	12,824,067	522,400	800
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	13,834,194	560	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	15,205,120	4,800	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	13,043,294	60,384	352
2U5	C	6-5/8	BX4	05/15/07	13,958,186	13,937,386	20,800	0
3E0	D	6-1/8	CA3	08/15/07	25,636,803	25,616,003	20,800	0
3X8	B	5-1/2	CQ8	02/15/08	13,583,412	13,583,412	0	0
Total Treasury Notes					760,878,852	700,525,601	60,353,251	1,175,483
Treasury Inflation-Indexed Notes								
CUSIP	Series	Interest Rate						
912827 3A8	J	3-5/8	912820 BZ9	07/15/02	16,968,040	16,968,040	0	0
2M3	A	3-3/8	BV8	01/15/07	16,071,712	16,071,712	0	0
3T7	A	3-5/8	CL9	01/15/08	8,412,136	8,412,136	0	0
Total Inflation-Indexed Notes					41,451,888	41,451,888	0	0
Grand Total					1,282,989,541	1,049,273,352	233,716,189	9,538,493

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) 482-1986. The balances in this table are subject to audit and subsequent adjustments.

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
April 06, 1998

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Term:	91-Day Bill
Issue Date:	April 09, 1998
Maturity Date:	July 09, 1998
CUSIP Number:	912795AB7

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate 1/	Price
Low	4.935%	5.065%	98.753
High	4.965%	5.098%	98.745
Average	4.960%	5.094%	98.746

Tenders at the high discount rate were allotted 7%.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 34,185,788	$ 4,075,773
Noncompetitive	1,318,137	1,318,137
PUBLIC SUBTOTAL	35,503,925	5,393,910
Federal Reserve	3,564,320	3,564,320
Foreign Official Inst.		
Refunded Maturing	391,500	391,500
Additional Amounts	0	0
TOTAL	$ 39,459,745	$ 9,349,730

1/ Equivalent coupon-issue yield.

RR-2353

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
April 06, 1998

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Term:	182-Day Bill
Issue Date:	April 09, 1998
Maturity Date:	October 08, 1998
CUSIP Number:	912795AM3

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate 1/	Price
Low	4.970%	5.170%	97.487
High	5.005%	5.206%	97.470
Average	5.000%	5.201%	97.472

Tenders at the high discount rate were allotted 13%.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 25,359,946	$ 4,112,946
Noncompetitive	1,134,058	1,134,058
PUBLIC SUBTOTAL	26,494,004	5,247,004
Federal Reserve	3,505,000	3,505,000
Foreign Official Inst.		
Refunded Maturing	2,015,000	2,015,000
Additional Amounts	0	0
TOTAL	$ 32,014,004	$ 10,767,004

1/ Equivalent coupon-issue yield.

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.
April 7, 1998

CONTACT: Office of Financing
202/219-3350

TREASURY'S WEEKLY BILL OFFERING

The Treasury will auction two series of Treasury bills totaling approximately $13,000 million, to be issued April 16, 1998. This offering will result in a paydown for the Treasury of about $44,425 million, as the maturing publicly held weekly bills are outstanding in the amount of $57,420 million (including the 44-day cash management bills issued March 3, 1998, in the amount of $23,376 million, and the 13-day cash management bills issued April 3, 1998, in the amount of $19,125 million).

In addition to the public holdings, Federal Reserve Banks for their own accounts hold $7,522 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 $7,208 million of the 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.

oOo

Attachment

RR-2355

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

HIGHLIGHTS OF TREASURY OFFERINGS OF WEEKLY BILLS
TO BE ISSUED APRIL 16, 1998

April 7, 1998

Offering Amount	$5,750 million	$7,250 million
Description of Offering:		
Term and type of security	91-day bill	182-day bill
CUSIP number	912795 AC 5	912794 5A 8
Auction date	April 13, 1998	April 13, 1998
Issue date	April 16, 1998	April 16, 1998
Maturity date	July 16, 1998	October 15, 1998
Original issue date	January 15, 1998	October 16, 1997
Currently outstanding	$11,785 million	$18,774 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 three decimals in increments of .005%, e.g., 7.100%, 7.105%.
(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 $1 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

April 7, 1998

Monthly Release of U.S. Reserve Assets

The Treasury Department today released U.S. reserve assets.data for the month of March 1998.

As indicated in this table, U.S. reserve assets amounted to $69,354 million at the end of March 1998, down from $70,632 million in February 1998.

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	
1998						
February	70,632r	11,050r	10,217	14,106	17,124	18,135
March	69,354p	11,050p	10,108	13,582	16,638	17,976

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.

p Preliminary

r Revised

RR-2356

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

PRESS SCHEDULE FOR THE APRIL G-7 AND G-22 MEETINGS

NOT FOR RELEASE OR PUBLICATION, for news planning only. Times are tentative.

Treasury Department Contacts:

General G-7 issues:
Kelly Crawford (202) 622-2960
Michelle Smith (202) 622-2960

Press Pool questions:
Michelle Lynn Bonner (202) 622-2960

To be cleared into Treasury for press conferences:
Phyllis Kayson (202) 622-2960

All Treasury, White House, Congressional, State and Defense credentials will be admitted to the Treasury Press Room from April 14 through April 17 and to the G-7 press conference. The Treasury Press Room is located at 1500 Pennsylvania Avenue, NW Room 1027. **If you do not have one of these credentials, please call (202) 622-2960.**

Tuesday
April 14, 1998

SECRETARY ROBERT E. RUBIN ADDRESS TO THE BROOKINGS INSTITUTION
Strengthening the Architecture of the International Financial System
1775 Massachusetts Avenue, NW
Washington, DC
Falk Auditorium
OPEN PRESS (FOLLOWED BY MEDIA AVAILABILITY)
10:00 a.m.
Pre-set 9:00 a.m.
Brookings Institution Contact: Bailey Morris-Eck or Alexander Kafka (202) 797-6105

NOT FOR RELEASE OR PUBLICATION, for news planning only. Times are tentative.
RR-2357

Wednesday
April 15, 1998

G-7 FINANCE MINISTERS' MEETING
Blair House

ARRIVALS
Pennsylvania Avenue entrance to the Blair House
OPEN PRESS
Noon

CLASS PHOTO
Finance Ministers and Central Bank Governors
Blair House Courtyard (**Rain site:** Pool inside Blair House)
OPEN PRESS (**Rain site:** Mandatory pool, pool only.)
2:00 p.m.

G-7 MEETING
Blair House
POOL SPRAY AT TOP OF WORKING SESSION
2:15 p.m.
NOTE: Mandatory pool, pool only. See pool details at end of schedule.

G-7 PRESS CONFERENCE
Treasury Secretary Rubin
Treasury Department (15th Street Entrance)
Large Conference Room (Room 3327)
OPEN PRESS
THERE WILL BE A 15 MINUTE EMBARGO (From the end of the press conference.)
6:00 p.m. (tentative, dependent upon the conclusion of the G-7 meeting)
Pre-set 5:00 p.m.

NOT FOR RELEASE OR PUBLICATION, for news planning only. Times are tentative.

Thursday
April 16, 1998

G-22 MEETING (FINANCE MINISTERS AND CENTRAL BANK GOVERNORS)
Madison Hotel

ARRIVALS
Entrance to the Madison Hotel
1177 - 15th Street, NW (corner of 15th and M Streets)
OPEN PRESS
6:00 p.m.

G-22 MEETING
Madison Hotel
1177 - 15th Street, NW (corner of 15th and M Streets)
POOL - OPENING REMARKS BY SECRETARY RUBIN ONLY
6:15 p.m.
NOTE: Mandatory pool, pool only. See pool details at end of schedule.

POOL INFORMATION:

TV Pool: TBD Network Pool
(A video DA will be available - for coverage you must bring a deck.)

Print/wire Pool: Treasury press room pool (Individual TBD)

Photo Pool: High resolution 300 dpi jpeg photos available *www.ustreas.gov/press/photos/*

NOTE: To receive any **pool** video, there will be a video DA (locations TBD) and for coverage you must bring a deck.

There will be a pool advisory with further details released Tuesday, April 14.

NOT FOR RELEASE OR PUBLICATION, for news planning only. Times are tentative.

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
April 8, 1998

Contact: Kelly Crawford
(202) 622-2960

RUBIN WELCOMES DEBT RELIEF FOR UGANDA

Treasury Secretary Robert E. Rubin today welcomed the World Bank and IMF decisions to make Uganda the first country to receive final debt relief under the Heavily Indebted Poor Countries (HIPC) debt initiative.

"This initiative supports sustainable development, economic reform and growth," Secretary Rubin said. "Debt relief under the HIPC initiative will provide an important investment in Uganda's future." The Ugandan Government has committed to allocate the resources made available under this initiative to education and health.

Uganda will no longer have to pay $650 million in debt service as a result of the global effort of all of its creditors, including the United States. This culminates a process of economic reforms and debt relief, beginning in 1992 with a 33 percent reduction of eligible debt by Uganda's bilateral creditors in the Paris Club and followed by successively deeper debt reduction. As a result, Uganda's debt service to exports ratio will have been reduced from 73 percent in 1991 to 21 percent in 1998.

"I commend the Ugandan Government for its strong record of reform over the past decade, achieving an average growth rate of about 8 percent in the mid-1990's," Secretary Rubin said.

The United States, the first country to suggest a multilateral debt initiative, has been a strong supporter of the HIPC debt initiative as a complement to existing debt relief mechanisms, which already are providing deep debt relief. The HIPC debt initiative is designed for those countries in need of additional debt relief.

To date, Burkina Faso, Bolivia, Guyana, Côte d'Ivoire, Mozambique, Mali and Guinea-Bissau have been declared by the World Bank and the IMF to be eligible for HIPC debt relief.

-30-

RR-2358

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
April 08, 1998

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 30-YEAR INFLATION-INDEXED BONDS

Interest Rate:	3 5/8%	Issue Date:	April 15, 1998
Series:		Dated Date:	April 15, 1998
CUSIP No:	912810FD5	Maturity Date:	April 15, 2028
STRIPS Minimum:	$1,600,000		

High Yield: 3.740% Price: 97.937

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 92%.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 20,568,150	$ 7,956,170
Noncompetitive	45,988	45,988
PUBLIC SUBTOTAL	20,614,138	8,002,158
Federal Reserve	400,000	400,000
Foreign Official Inst.	0	0
TOTAL	$ 21,014,138	$ 8,402,158

Median yield 3.700%: 50% of the amount of accepted competitive tenders was tendered at or below that rate.

Low yield 3.600%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

RR-2359

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
April 9, 1998

Contact: Kelly Crawford
(202) 622-2960

STATEMENT BY THE TREASURY SECRETARY ROBERT E. RUBIN ON JAPAN

We welcome Prime Minister Hashimoto's announcement of steps to stimulate the Japanese economy. We look forward to seeing the details later this month. What is crucial is that Japan move quickly to put in place a strong program.

We share the concern expressed by the Japanese Prime Minister about recent weakness in the yen, and in that context we welcome the action undertaken by the Japanese authorities in the exchange market to support the value of the yen.

-30-

RR-2360

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
April 10, 1998

Contact: Kelly Crawford
(202) 622-2960

STATEMENT BY TREASURY SECRETARY ROBERT E. RUBIN ON INDONESIA

I welcome the agreement between the Government of Indonesia and the International Monetary Fund on a revised Letter of Intent. The key to its success is the Indonesian Government's implementation now and over the long term. This agreement supports a comprehensive program designed to restore financial stability and growth in Indonesia.

The United States and the international community have a major stake in seeing Indonesia succeed in its efforts.

-30-

RR-2361

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
April 13, 1998

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Term:	91-Day Bill
Issue Date:	April 16, 1998
Maturity Date:	July 16, 1998
CUSIP Number:	912795AC5

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate 1/	Price
Low	4.970%	5.102%	98.744
High	5.050%	5.188%	98.723
Average	5.035%	5.172%	98.727

Tenders at the high discount rate were allotted 4%.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 24,554,187	$ 4,160,687
Noncompetitive	1,300,247	1,300,247
PUBLIC SUBTOTAL	25,854,434	5,460,934
Federal Reserve	3,361,860	3,361,860
Foreign Official Inst.		
Refunded Maturing	312,000	312,000
Additional Amounts	0	0
TOTAL	$ 29,528,294	$ 9,134,794

1/ Equivalent coupon-issue yield.

RR-2362

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
April 13, 1998

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Term: 182-Day Bill
Issue Date: April 16, 1998
Maturity Date: October 15, 1998
CUSIP Number: 9127945A8

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate 1/	Price
Low 2/	5.110%	5.318%	97.417
High	5.135%	5.345%	97.404
Average	5.130%	5.339%	97.407

Tenders at the high discount rate were allotted 94%.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 25,715,983	$ 4,050,133
Noncompetitive	1,104,333	1,104,333
PUBLIC SUBTOTAL	26,820,316	5,154,466
Federal Reserve	4,160,000	4,160,000
Foreign Official Inst.		
Refunded Maturing	2,105,000	2,105,000
Additional Amounts	0	0
TOTAL	$ 33,085,316	$ 11,419,466

1/ Equivalent coupon-issue yield.
2/ $1,026,000 was accepted at rates below the competitive range.

RR-2363

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
April 13, 1998

Contact: Peter Hollenbach
(202) 219-3302

BUREAU OF THE PUBLIC DEBT AIDS SAVINGS BONDS OWNERS AFFECTED BY TORNADOES IN ALABAMA

The Bureau of Public Debt took action to assist victims of tornadoes in Alabama by expediting the replacement or payment of United States Savings Bonds for owners in the affected areas. The emergency procedures are effective immediately for paying agents and owners in those areas of Alabama affected by the storms. These procedures will remain in effect through May 31, 1998.

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

Alabama counties involved are Jefferson and Tuscaloosa. Should additional counties be declared disaster areas the emergency procedures for savings bonds owners will go into effect for those areas.

The replacement of bonds lost or destroyed will also be expedited by Public Debt. Bond owners should complete form PD-1048, available at most financial institutions or by writing the Richmond Federal Reserve Bank's Savings Bond Customer Service Department, 701 East Byrd Street, Richmond, Virginia 23219; phone (804) 697-8370. This form can also be downloaded from Public Debt's website at: www.publicdebt.treas.gov. Bond owners should include as much information as possible about the lost bonds on the form. This information should include how the bonds were inscribed, social security number, approximate dates of issue, bond denominations and serial numbers if available. The completed form must be certified by a notary public or an officer of a financial institution. Completed forms should be forwarded to Public Debt's Savings Bond Operations Office located at 200 Third St., Parkersburg, West Virginia 26106-1328. Bond owners should write the word "STORMS" on the front of their envelopes, to help expedite the processing of claims.

RR-2364

o0o

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
April 13, 1998

Contact: Peter Hollenbach
(202) 219-3302

BUREAU OF THE PUBLIC DEBT AIDS SAVINGS BONDS OWNERS AFFECTED BY TORNADOES IN GEORGIA

The Bureau of Public Debt took action to assist victims of tornadoes in Georgia by expediting the replacement or payment of United States Savings Bonds for owners in the affected areas. The emergency procedures are effective immediately for paying agents and owners in those areas of Georgia affected by the storms. These procedures will remain in effect through May 31, 1998.

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

Georgia counties involved are Cobb and DeKalb. Should additional counties be declared disaster areas the emergency procedures for savings bonds owners will go into effect for those areas.

The replacement of bonds lost or destroyed will also be expedited by Public Debt. Bond owners should complete form PD-1048, available at most financial institutions or by writing the Richmond Federal Reserve Bank's Savings Bond Customer Service Department, 701 East Byrd Street, Richmond, Virginia 23219; phone (804) 697-8370. This form can also be downloaded from Public Debt's website at: www.publicdebt.treas.gov. Bond owners should include as much information as possible about the lost bonds on the form. This information should include how the bonds were inscribed, social security number, approximate dates of issue, bond denominations and serial numbers if available. The completed form must be certified by a notary public or an officer of a financial institution. Completed forms should be forwarded to Public Debt's Savings Bond Operations Office located at 200 Third St., Parkersburg, West Virginia 26106-1328. Bond owners should write the word "STORMS" on the front of their envelopes, to help expedite the processing of claims.

RR-2365

oOo

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

Remarks as Prepared for Delivery
April 14, 1998

SECRETARY ROBERT E. RUBIN
BROOKINGS INSTITUTION
STRENGTHENING THE ARCHITECTURE OF THE INTERNATIONAL FINANCIAL SYSTEM

Today I would like to discuss the international financial system in the wake of the financial crisis in Asia; what we can learn from these events about the opportunities and risks of a global financial market; and how we can strengthen the architecture of the international financial system to realize the potential of a 21st century global economy.

These issues of architecture will be at the top of the agenda this week when the world financial community gathers here in Washington for the spring meetings of the Group of Seven industrialized nations and the policy making bodies of the International Monetary Fund and the World Bank. In addition, Chairman Greenspan and I will host a special meeting of a group of ministers and governors from advanced, emerging and transition economies to discuss architecture. In a moment I will discuss the US approach to changes in the international financial architecture, which we will bring to these meetings, just as the other nations of the world will bring their ideas and suggestions. But first, I think it is important to place these discussions in broader historical context.

Over the last ten to fifteen years, we have seen the rapid evolution of a new era of the global economy and global financial markets, an era that presents enormous opportunities for workers, farmers and businesses around the globe. And the changes have been dramatic. Greatly increased flows of trade, capital, information and technology have helped promote global output. Most large businesses, both here in the United States and elsewhere have become global. Developing countries have become important participants in the global economy; for example, they now absorb more than 40 percent of our country's exports. Financial liberalization and technological innovation have produced an ever broader range of new services and products.

A decade ago, official capital flows to developing countries were much greater than private capital flows. Today, annual private flows of capital to developing countries around the
RR-2366

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

world are more than seven times larger than official flows. In 1996, more than $250 billion in private capital flowed to emerging markets -- compared to roughly $20 billion ten years ago. All of this explains why fluctuations in the Thai baht, or the fortunes of the Korean stock market can now affect workers, farmers and businesses in the United States and all over the world and appear daily on the front page of our newspapers. A decade ago practically no one outside the affected countries would have noticed.

Global economic and financial integration with respect to trade and capital flows have brought tremendous benefits here in the United States through increased exports, more high-paying jobs, higher standards of living and lower inflation. The huge increase in private capital flows to developing countries have, among other things, helped finance a great increase in imports from industrialized countries, including our own. Developing countries form Latin America to Asia have also benefited greatly, as increased capital flows financed greater investment and contributed substantially to the high rates of growth in many such countries, promoting higher standards of living and lifting millions out of poverty. The recent economic turmoil in Asia should not, for example, detract from what Asia has achieved over the last 25 years. Even under the more pessimistic forecasts, living standards in Korea, Thailand and Indonesia would still be three times higher at the end of this year than they were 20 years ago, and the poverty rates much lower. Even with the current crisis, per capita income would be higher than in 1995.

As we have seen in recent years, however, this new era brings not only great opportunities and benefits, but also new challenges and risks. How effectively the international community meets these challenges and manages the risks, will have an enormous impact in the years ahead on our economic well-being, and the economic well-being of all countries.

One great challenge is to greatly broaden participation in the benefits of the global economy. Despite vast global economic growth over the past decade, over half the people of the world still live in poverty and that is a problem not only for the countries with high poverty rates but for all of us. The developing countries are our markets for the future, and their economic well-being promotes our economic well-being. Here at home, global financial integration benefits the great majority of Americans, but one of the concerns often expressed -- and it is a concern that I share -- is that, throughout the industrialized countries, including the United States, those who are well-equipped to compete in the global economy are doing better and better, and those who are not so well-equipped risk falling further and further behind.

But the answer to these challenges is not to turn inward, or to dismantle the global economy that has benefited so many. The answer is for all nations, including the United States, to make it easier for those who are dislocated to reenter the economy successfully; to focus on education and training to equip citizens with the tools to prosper in the global economy; to build social safety nets to protect the people who would otherwise be left behind; to work for broad implementation of core labor standards throughout the globe; and to promote democracy and human rights. The benefits of the global economy will only be realized if we and all other nations build broad-based support at home for forward-looking international economic policies. That support will only occur if these benefits are broadly shared.

A half century ago, when the world was emerging from a very different period of history, Franklin D. Roosevelt urged Americans to support him in working with other nations to create international institutions that would spell the difference "between a world caught again in the maelstrom of panic and economic warfare...and a world in which the members strive for a better life through mutual trust, cooperation and assistance." The result was the Bretton Woods institutions -- the International Monetary Fund and the World Bank -- followed later by a range of other collaborative arrangements, such as the World Trade Organization, central bank networks, and the regional development banks. This international architecture has worked to support growth and financial stability and open markets around the globe, greatly benefiting generations of Americans.

Throughout their history, the international financial institutions have had to adapt to a changing global economic landscape, and they have, by and large, done so successfully. But over recent years, the pace of change in the global economy has accelerated. The Asian crisis has demonstrated how badly flawed financial sectors in a few developing countries, and inadequate risk assessment by international creditors and investors, can have significant impact in countries around the globe. Once, unsound macro-economic, financial and other policies in emerging economies would have had little impact on other nations. Now, unsound policies in these countries can harm economies throughout the global economy -- such as our large budget deficits did in the 1980s -- and the problems of each country are the problems of all of us.

That is why, even before the turmoil in Asia, the United States and the international community have been working to strengthen the international financial architecture. Our goals are clear: to promote broadly shared growth in both the developed and developing world, to be better able to prevent future crises, and to deal with them when they occur, and by making the architecture as modern as the markets. The United States began this effort four years ago at a G-7 leaders' meeting in Naples and, working with other nations, the first concrete steps were launched at the G-7 summit the following year in Halifax. Going forward will not require the kind of far-reaching institutional change that we saw in 1945, but the international architecture does need to adapt substantially for the very different circumstances that have developed over the past decade, and to fully prepare for the challenges of tomorrow. This adaptation involves great intellectual complexities and great international political complexities and will occur not at one time, but in pieces over an extended period of time

There are a whole range of issues that are profoundly important to the strength of individual economies and the global economy -- sound macroeconomic policies, education, health care, and the environment number among them. There is also a detailed agenda for reform of the IMF concerning, among other things, its lending programs. But today I would like to focus on three challenges that have been brought home by the financial crisis in Asia and that are most directly related to financial stability and building a stronger global financial market. These are: providing better information through improved disclosure and transparency; building strong national financial sectors; and creating mechanisms so that the private sector more fully bears the consequences of its credit and investment decisions, including in times of crisis.

The first critical area is better information. When investors are well-informed, use that information wisely, and expect to bear their consequences of their actions, they will make better decisions. That is good for them and can be a powerful force in promoting good policies among nations. National policy makers also need better information, to guide their actions, and anticipate potential problems.

However, there are obstacles to getting good information about economic and financial matters. One is the temptation -- in the private sector and in government -- to avoid disclosing problems. But sooner or later, as we have seen in Asia, the problems will make themselves known -- and in the meantime they only become more severe. In the Asian economies that suffered crises, very effective strategies for achieving many years of rapid growth had masked the growth of problems. In many cases, lack of data meant that no one had a true understanding of this build up or of these economies' vulnerabilities.

Another obstacle is the difficulty of collecting relevant information on a timely basis. In the modern, very complex global financial markets investors and policy makers need more types of information then ever before. For example, public and private institutions have to better identify and disclose the effects of derivatives and other off-balance sheet items on financial risks and vulnerabilities.

Just as important as having good information is using that information well. Risk and credit evaluation have often not kept pace with the development of new products and markets. Indeed, in the Asian crisis we were struck by how few of the international creditors and investors in these economies had the appropriate expertise and knowledge on weighting of risk.

While to some measure this may simply reflect the seemingly inevitable tendency for investors and creditors to at times get overly optimistic or pessimistic -- and at those times to forego adequate analysis -- the incentives to be rigorous should be maximized, which at the least involves questions of moral hazard and regulatory regimes. When creditors and investors come closer to functioning with full analytic rigor, markets will more effectively perform their critical disciplining function in favor of good policy, disclosure, strong financial sectors and the like.

Even before the Asian crisis we had been involved in an intensive effort to improve the quality and quantity of international economic and financial information, including greater IMF transparency. Many countries are now publishing more and better data as a result of these efforts and the IMF is more open about its analysis. But events in Asia have shown we need to strengthen these initiatives. We propose four steps to do so.

First, there needs to be a substantial expansion in the types of economic and financial data made available. In particular, it is essential to get good information on the external liabilities of both the public and private sectors. The IMF's Special Data Dissemination Standards should require countries to provide a complete picture of usable central bank reserves, including any forward liabilities, foreign currency liabilities of the commercial banks, as well as indicators on the health of the financial sector. The Bank for International Settlements should expand its reporting on cross border bank flows to get better, broader, and more timely data on external lending to a country. Governments and international financial institutions also need to make this data more easily accessible to investors, particularly through the internet.

Second, we need to explore how to obtain and publicize a broader range of qualitative descriptive information on financial sector matters that affect the risk of investing in emerging markets, including detail on banking supervision, bankruptcy procedures, perhaps judicial systems, credit cultures and skills in the banking sector. We must now resolve the many difficult issues with regard to these qualitative matters, for example, how best to describe them and who should perform this function.

To support these efforts on disclosure, private sector groups should provide their own ideas about the data and information they would find most helpful, and ways to encourage wider use of available information and appropriate focus on risk.

Third, the IMF needs to make its analyses and lending conditions more transparent. This will involve more frequent and regular publication of a number of IMF documents, analyses, and letters of intent. However, while greater transparency to help investors reach an informed judgment about potential problems is essential, giving the IMF the responsibility to publicly predict formal warnings of crisis is not. While it is possible to identify problems that may develop into difficulties and occasionally into crisis, it is not possible in our view to reliably predict combustion into crisis.

Fourth, we need to increase incentives for countries to improve transparency. The discipline of the market is always the best and most powerful incentive, and can work here to induce better disclosure. Analysts and rating agencies also need to pay close attention to the availability and quality of data and information when determining credit worthiness and asset allocations. In addition, the IMF and other international financial institutions should publicize their concerns about important gaps in countries' disclosure and consider conditioning access to loans on countries' willingness to improve their transparency.

The second critical area we are focused on is strengthening national financial systems. A common element amongst the countries involved in the crisis in Asia -- and, for that matter, in virtually all countries experiencing financial crises -- is a badly flawed domestic financial sector.

Developing a strong financial system that is a match for the challenges of a global financial market is a long and difficult process. The institutions and laws we have in the United States to supervise our domestic financial system were developed over a period of a hundred years and must constantly be updated. We ourselves had an enormous financial sector problem with our

Savings and Loan crisis in the 1980s. That crisis stemmed in part from a failure to supervise those institutions adequately as they moved into new services, and to a delay in taking decisive corrective action. Building strong financial sectors will unquestionably be key to financial stability and growth in emerging economies.

Given the effects that weak financial systems can have internationally, the time has come for a more systematic approach to strengthening national financial systems that would involve a more intensive assessment of the vulnerabilities in national financial systems and steps to promote reforms. To do this, we need action in the following areas.

First, we need to develop a more complete range of global standards to guide individual governments' efforts. As a result of the Halifax initiatives, the Basle Committee has now developed the "Core Principles for Effective Banking Supervision." IOSCO, the organization that brings together securities regulators from around the globe, is already well on the way to developing an analogous set of principles for the supervision of securities firms. But we believe core principles should be developed and adopted in additional areas that affect the underlying strength of a financial system, including bankruptcy regimes, accounting and disclosure, loan classification, and overall corporate governance. Other practices which need to be adopted include promoting credit risk management, helping address the problems of connected and directed lending, maturity and currency mismatches, and encouraging a strong credit culture and the requisite skills in a nation's banking system. Different countries have and will continue to have different ways of doing these things, but we must agree to certain high quality internationally acceptable standards.

Second, we need to fill a gap in today's international architecture to provide for international surveillance of countries' financial regulatory and supervisory systems, just as the IMF now carries out surveillance of macroeconomic policies. There are a number of different ways that this could be done -- perhaps through a joint initiative with the IMF and the World Bank, with the use of existing expertise of regulators. But it is critically important to find an appropriate way to fill this gap.

Enhanced surveillance will help induce national authorities to bring their practices up to internationally-acceptable levels, as I set forth in the standards I just discussed, and reduce financial risk These assessments can lay the groundwork for policy discussions and appropriate assistance, where needed, from the IMF and the multilateral development banks for programs to strengthen financial systems. In addition, analysis of this kind should feed into the range of key documents we believe the IMF should be releasing more systematically. This would then bring into play the most powerful incentive, the markets

Third, we should consider examining other incentives that could be brought to bear for strengthening financial systems. For example, authorities in major financial centers could consider conditioning access to their markets by banks from other countries on a strong home country supervisory regime, as demonstrated by adherence to the Basle Core Principles, plus whatever relevant additional standards are developed.

Let me also make two additional points relating to financial sectors and capital markets. Experience shows that when countries allow foreign financial service providers into their markets -- with all the competition, capital and expertise they bring with them -- the strength of financial systems is greatly enhanced. The recent WTO agreement in financial services is a major step forward here.

In addition, while attempts to limit inflows of capital, such as Chile's short-term capital controls, have been advocated by some, it is key--independent of the merits or drawbacks of such measures -- that this sort of approach not distract policy makers from implementing the underlying sound policies that are the real foundation for stability and growth. Having said that, it may be worth exploring narrower, prudential limits on banks to prevent an excessive buildup of short-term foreign currency liabilities.

The third and final critical area that I want to discuss today is building effective mechanisms for creditors and investors to more fully bear the consequences of their actions. We cannot prevent crises from happening entirely. When crises do occur, as most recently in Asia, the provision of temporary financial support by the IMF, conditioned on countries pursuing sound policies, is essential in providing countries the breathing room they need to stabilize their currencies, restore market confidence and resume growth. It limits the risk that the crisis will worsen or spread. But, and the balance here will always be difficult, the private sector must fully bear the consequences of its decisions in the context of restoring financial stability.

There are two reasons to focus on the private sector bearing the consequences of its actions. In a world in which trillions of dollars flow through international markets every day there is simply not going to be enough official financing for the crises that could take place. There is also a risk with international assistance of what economists call "moral hazard:" that providing official financial assistance shields creditors and investors from the consequences of bad decisions and sows the seeds of futures crises. Some protection of creditors may be an inevitable by-product of the overarching objective of restoring financial stability, but this protection should be kept to the minimum possible.

When investors bear more responsibility for their actions, they have a better incentive to analyze and weigh risks appropriately This, in turn, will promote good policy in all countries, including our own, and help prevent instability and crisis Markets are a powerful force and our goal must be to make markets work better, while still providing the essential international support to help countries in crisis and guard against contagion risks

There are a number of ways that the private sector can be involved when the IMF is providing emergency support at a time of country crisis, as the recent cases in Asia have shown. In Korea, international banks stretched out and renegotiated a substantial proportion of outstanding loans while the IMF has provided emergency financing to Korea, drawing upon its new, short term, high interest lending facility, conditioned on strong policies. In Indonesia, foreign banks are now negotiating with a committee representing private sector corporate debtors, while the Indonesia program with the IMF is aimed at putting in place a more stable macroeconomic environment.

While the whole question of private sector involvement is extremely complicated -- and there are many areas that may not have yet been fully explored -- let me just mention a few thoughts as to possible mechanisms.

In general, the promotion of new, more flexible forms of debt agreements and indentures would provide a framework for direct negotiations between creditors and investors. In addition, the IMF should explore lending into arrears -- in other words, the IMF continuing to provide financing to countries even when those countries may be behind on the debt payments to some private creditors -- to create a situation in which debtors and creditors work things out themselves. A broader, international bankruptcy regime of some sort may have great appeal, but, at least with current knowledge, the political obstacles may be insurmountable. However, strong bankruptcy laws and institutions covering debtor-creditor relations can mean business failures have a better chance of being resolved quickly and with less impact on the broader economy. Governments could then reduce the scope of formal guarantees to create a more healthy environment with the presumption that corporate debt will not be protected, and that where appropriate banks will be allowed to fail. Various insurance plans for creditors have also been suggested, but none so far proposed seem likely to be effective and some may create additional moral hazard problems.

Before I conclude, I want to comment on a critical immediate issue. The IMF has been central to the effort to restore financial stability in Asia and the IMF will be central to restoring financial stability in response to crises in the years ahead -- matters that are critically important to the economic well-being of the American people. All of this underscores the importance of Congress approving full funding for the IMF, as requested by the President. As a result of the recent situation in Asia, the IMF's normal financial resources are approaching historically low levels. The IMF might not have the capacity to respond effectively if the Asian crisis were to deepen, spread to other developing countries throughout the globe, or if a new crisis were to develop in the near term. Every day that this continues is another day of vulnerability for American workers, farmers, and businesses. Congress should act and act now. And our capacity to influence the IMF to deal with these new challenges turns upon our capacity to support the IMF with the funding it needs.

As I said earlier, there are many steps we need to take to build a strong global economy that benefits everyone. But the objectives I have described today -- better information; stronger national financial systems; and mechanisms so that the private sector more fully bears the consequences of its investment decisions -- are critical elements in strengthening the architecture of the international financial system, especially with regards to preventing and dealing with financial instability and crisis.

Progress will take time and immense amounts of energy on the part of the international community, and in our country, close cooperation between Congress and the Administration. But our success in meeting the challenge of strengthening the international financial architecture will be critical to global prosperity -- and our own country's economic well-being -- for years and decades to come. Thank you very much.

-30-

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
April 14, 1998

Contact: Office of Financing
(202) 219-3350

**TREASURY'S INFLATION-INDEXED SECURITIES
MAY REFERENCE CPI NUMBERS AND DAILY INDEX RATIOS**

Public Debt announced today the reference Consumer Price Index (CPI) numbers and daily index ratios for the month of May for the following Treasury inflation-indexed securities: (1) the 3-3/8% 10-year notes due January 15, 2007, (2) the 3-5/8% 5-year notes due July 15, 2002, (3) the 3-5/8% 10-year notes due January 15, 2008, and (4) the 3-5/8% 30-year bonds due April 15, 2028. 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 CPI's (Ref CPI) and index ratios, this release provides the non-seasonally adjusted CPI-U for the prior three-month period.

This information is available on the Internet at Public Debt's web site (http://www.publicdebt.treas.gov). The information is also available through the Treasury's Office of Public Affairs automated fax system by calling 202-622-2040 and requesting document number 2367.

The information for June is expected to be released on May 14, 1998.

o0o

Attachments

RR-2367

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

3-3/8% 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:	May 1998
NUMBER OF DAYS IN MONTH:	31

CPI-U (NSA) January 1998	161.6
CPI-U (NSA) February 1998	161.9
CPI-U (NSA) March 1998	162.2

Ref CPI and Index Ratios for May 1998:

Month	Calendar Day	Year	Ref CPI	Index Ratio
May	1	1998	161.90000	1.02187
May	2	1998	161.90968	1.02193
May	3	1998	161.91935	1.02199
May	4	1998	161.92903	1.02205
May	5	1998	161.93871	1.02211
May	6	1998	161.94839	1.02217
May	7	1998	161.95806	1.02223
May	8	1998	161.96774	1.02229
May	9	1998	161.97742	1.02236
May	10	1998	161.98710	1.02242
May	11	1998	161.99677	1.02248
May	12	1998	162.00645	1.02254
May	13	1998	162.01613	1.02260
May	14	1998	162.02581	1.02266
May	15	1998	162.03548	1.02272
May	16	1998	162.04516	1.02278
May	17	1998	162.05484	1.02284
May	18	1998	162.06452	1.02291
May	19	1998	162.07419	1.02297
May	20	1998	162.08387	1.02303
May	21	1998	162.09355	1.02309
May	22	1998	162.10323	1.02315
May	23	1998	162.11290	1.02321
May	24	1998	162.12258	1.02327
May	25	1998	162.13226	1.02333
May	26	1998	162.14194	1.02339
May	27	1998	162.15161	1.02346
May	28	1998	162.16129	1.02352
May	29	1998	162.17097	1.02358
May	30	1998	162.18065	1.02364
May	31	1998	162.19032	1.02370

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

3-5/8% TREASURY 5-YEAR INFLATION-INDEXED NOTES

SERIES:	J-2002
CUSIP:	9128273A8
DATED DATE:	July 15, 1997
ORIGINAL ISSUE DATE:	July 15, 1997
ADDITIONAL ISSUE DATE:	October 15, 1997
MATURITY DATE:	July 15, 2002
Ref CPI on DATED DATE:	160.15484
TABLE FOR MONTH OF:	May 1998
NUMBER OF DAYS IN MONTH:	31

CPI-U (NSA) January 1998	161.6
CPI-U (NSA) February 1998	161.9
CPI-U (NSA) March 1998	162.2

Ref CPI and Index Ratios for May 1998:

Month	Calendar Day	Year	Ref CPI	Index Ratio
May	1	1998	161.90000	1.01090
May	2	1998	161.90968	1.01096
May	3	1998	161.91935	1.01102
May	4	1998	161.92903	1.01108
May	5	1998	161.93871	1.01114
May	6	1998	161.94839	1.01120
May	7	1998	161.95806	1.01126
May	8	1998	161.96774	1.01132
May	9	1998	161.97742	1.01138
May	10	1998	161.98710	1.01144
May	11	1998	161.99677	1.01150
May	12	1998	162.00645	1.01156
May	13	1998	162.01613	1.01162
May	14	1998	162.02581	1.01168
May	15	1998	162.03548	1.01174
May	16	1998	162.04516	1.01180
May	17	1998	162.05484	1.01186
May	18	1998	162.06452	1.01192
May	19	1998	162.07419	1.01198
May	20	1998	162.08387	1.01204
May	21	1998	162.09355	1.01211
May	22	1998	162.10323	1.01217
May	23	1998	162.11290	1.01223
May	24	1998	162.12258	1.01229
May	25	1998	162.13226	1.01235
May	26	1998	162.14194	1.01241
May	27	1998	162.15161	1.01247
May	28	1998	162.16129	1.01253
May	29	1998	162.17097	1.01259
May	30	1998	162.18065	1.01265
May	31	1998	162.19032	1.01271

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

3-5/8% TREASURY 10-YEAR INFLATION-INDEXED NOTES

SERIES:	A-2008
CUSIP:	9128273T7
DATED DATE:	January 15, 1998
ORIGINAL ISSUE DATE:	January 15, 1998
MATURITY DATE:	January 15, 2008
Ref CPI on DATED DATE:	161.55484
TABLE FOR MONTH OF:	May 1998
NUMBER OF DAYS IN MONTH:	31

CPI-U (NSA) January 1998	161.6
CPI-U (NSA) February 1998	161.9
CPI-U (NSA) March 1998	162.2

Ref CPI and Index Ratios for May 1998:

Month	Calendar Day	Year	Ref CPI	Index Ratio
May	1	1998	161.90000	1.00214
May	2	1998	161.90968	1.00220
May	3	1998	161.91935	1.00226
May	4	1998	161.92903	1.00232
May	5	1998	161.93871	1.00238
May	6	1998	161.94839	1.00244
May	7	1998	161.95806	1.00250
May	8	1998	161.96774	1.00256
May	9	1998	161.97742	1.00262
May	10	1998	161.98710	1.00268
May	11	1998	161.99677	1.00274
May	12	1998	162.00645	1.00280
May	13	1998	162.01613	1.00286
May	14	1998	162.02581	1.00292
May	15	1998	162.03548	1.00298
May	16	1998	162.04516	1.00304
May	17	1998	162.05484	1.00309
May	18	1998	162.06452	1.00315
May	19	1998	162.07419	1.00321
May	20	1998	162.08387	1.00327
May	21	1998	162.09355	1.00333
May	22	1998	162.10323	1.00339
May	23	1998	162.11290	1.00345
May	24	1998	162.12258	1.00351
May	25	1998	162.13226	1.00357
May	26	1998	162.14194	1.00363
May	27	1998	162.15161	1.00369
May	28	1998	162.16129	1.00375
May	29	1998	162.17097	1.00381
May	30	1998	162.18065	1.00387
May	31	1998	162.19032	1.00393

3-5/8% TREASURY 30-YEAR INFLATION-INDEXED BONDS

DESCRIPTION:	Bond · April 2028
CUSIP:	912810FD5
DATED DATE:	April 15, 1998
ORIGINAL ISSUE DATE:	April 15, 1998
MATURITY DATE:	April 15, 2028
Ref CPI on DATED DATE:	161.74000
TABLE FOR MONTH OF:	May 1998
NUMBER OF DAYS IN MONTH:	31

CPI-U (NSA) January 1998	161.6
CPI-U (NSA) February 1998	161.9
CPI-U (NSA) March 1998	162.2

Ref CPI and Index Ratios for May 1998:

Month	Calendar Day	Year	Ref CPI	Index Ratio
May	1	1998	161.90000	1.00099
May	2	1998	161.90968	1.00105
May	3	1998	161.91935	1.00111
May	4	1998	161.92903	1.00117
May	5	1998	161.93871	1.00123
May	6	1998	161.94839	1.00129
May	7	1998	161.95806	1.00135
May	8	1998	161.96774	1.00141
May	9	1998	161.97742	1.00147
May	10	1998	161.98710	1.00153
May	11	1998	161.99677	1.00159
May	12	1998	162.00645	1.00165
May	13	1998	162.01613	1.00171
May	14	1998	162.02581	1.00177
May	15	1998	162.03548	1.00183
May	16	1998	162.04516	1.00189
May	17	1998	162.05484	1.00195
May	18	1998	162.06452	1.00201
May	19	1998	162.07419	1.00207
May	20	1998	162.08387	1.00213
May	21	1998	162.09355	1.00219
May	22	1998	162.10323	1.00225
May	23	1998	162.11290	1.00231
May	24	1998	162.12258	1.00237
May	25	1998	162.13226	1.00243
May	26	1998	162.14194	1.00249
May	27	1998	162.15161	1.00254
May	28	1998	162.16129	1.00260
May	29	1998	162.17097	1.00266
May	30	1998	162.18065	1.00272
May	31	1998	162.19032	1.00278

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.
April 14, 1998

CONTACT: Office of Financing
202/219-3350

TREASURY'S WEEKLY BILL OFFERING

The Treasury will auction two series of Treasury bills totaling approximately $13,000 million, to be issued April 23, 1998. This offering will result in a paydown for the Treasury of about $24,200 million, as the maturing publicly held bills are outstanding in the amount of $37,198 million (including the 65-day cash management bills issued February 17, 1998, in the amount of $22,389 million).

In addition to the public holdings, Federal Reserve Banks for their own accounts hold $6,751 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 $7,089 million of the 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.

oOo

RR-2368
Attachment

HIGHLIGHTS OF TREASURY OFFERINGS OF WEEKLY BILLS
TO BE ISSUED APRIL 23, 1998

April 14, 1998

Offering Amount	$5,750 million	$7,250 million
Description of Offering:		
Term and type of security	91-day bill	182-day bill
CUSIP number	912794 4X 9	912795 AN 1
Auction date	April 20, 1998	April 20, 1998
Issue date	April 23, 1998	April 23, 1998
Maturity date	July 23, 1998	October 22, 1998
Original issue date	July 24, 1997	April 23, 1998
Currently outstanding	$29,759 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 three decimals in increments of .005%, e.g., 7.100%, 7.105%.
(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 $1 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

STATEMENT OF G-7 FINANCE MINISTERS AND CENTRAL BANK GOVERNORS
April 15, 1998
Washington, DC

1) We, the Finance Ministers and Central Bank Governors of the G-7 countries, met today to review recent developments in the world economy and financial markets.

Developments in the World Economy

G-7 Economies

2) Together with the Managing Director of the International Monetary Fund, Michel Camdessus, we reviewed recent developments in our economies and other economies around the world.

3) Strong growth has continued in North America and the United Kingdom. It is important that the policy framework continue to be directed at a sustainable expansion in these countries and at increasing national savings in the United States.

4) In France, Germany and Italy, economic growth gained momentum in 1997 and is expected to strengthen further this year. It is important that recovery on the Continent be increasingly based on sustained growth of domestic demand. Continuing structural reforms will also be needed to combat persistent high unemployment and provide a sound basis for growth.

5) The challenges facing Japan are serious and have intensified in recent months. We welcomed the recent announcement of an economic policy program directed at spurring a substantial strengthening of domestic demand and reviving business and consumer confidence. What is crucial is to implement quickly a strong program of effective fiscal measures and structural reforms. We also welcomed the progress Japan is making in implementing its Big Bang financial liberalization initiative and encouraged the Japanese authorities to move forward to address the problems in the financial system.

6) Inflation pressures in the G-7 economies remain under control, with Italy showing particular improvement. But vigilance will, as always, remain necessary to stay on a non-inflationary path, particularly in the United States and the United Kingdom, so that sustainable growth can be maintained.

European Economic and Monetary Union

7) We look forward to a successful launch of European Economic and Monetary Union

RR-2369

(EMU) that contributes to the stability of the international monetary system. Strong commitment to the fiscal requirements of EMU membership, and to efforts to fight high structural unemployment, are key to ensuring a stable and successful EMU. We agreed on the importance of examining these issues further together.

Exchange rates

8) We discussed developments in our exchange and financial markets. We reaffirmed our view that exchange rates should reflect economic fundamentals and that excess volatility and significant deviations from fundamentals are undesirable. We emphasized that it is important to avoid excessive depreciation where this could exacerbate large external imbalances. In light of this, we support appropriate steps by Japan aimed at stimulating domestic demand led growth and reducing external imbalances, thus also correcting the excessive depreciation of the yen. We will continue to monitor developments in exchange markets and to cooperate as appropriate.

Emerging Markets

9) We welcomed progress toward restoration of financial stability in Asia. We are particularly encouraged by an early return to the capital markets by some countries, the efforts being made toward strengthening financial systems and the recent strengthening of regional currencies.

10) Despite this progress, substantial challenges lie ahead, and we agreed that this is no time for complacency. A strong and enduring recovery requires a substantial commitment to the macroeconomic and structural reform necessary to restore confidence, with program support from the IFIs. The international community has a strong interest in seeing recovery in Asia, and we are committed to working with the IFIs toward this goal. In this context, our export credit agencies continue to provide trade finance to countries in this region. We also agreed on the importance of building a social consensus for reform in Asia, which requires action to limit the impact of the crisis on the poor.

11) We welcomed Indonesia's renewed commitment to economic and structural reform and its agreement with the IMF on a new reform program. We urge the Indonesian government to implement its program fully and vigorously as this is necessary to restore confidence.

12) We reviewed potential risks in broad range of emerging markets. We welcomed increased differentiation by the markets of the prospects of emerging economies and noted that preemptive policy measures in key cases have helped to contain contagion. We believe that an open global trading system is essential for broad-based prosperity. We encourage emerging and transition economies to pursue strong macroeconomic policies, improved governance and structural reform programs to reduce their vulnerability to

contagion, and urged the IFIs to play an active role in supporting these efforts. In this regard, we reiterated the urgent need to approve the proposed New Arrangements to Borrow and quota increase, so that the Fund has the necessary resources to perform its mission at this very critical time.

Development Issues & Africa

13) We noted the economic progress in those developing countries where sound macroeconomic policies, good governance and market reforms have been pursued vigorously. We reiterated our commitment to support these countries' efforts to integrate into the global economic system. This support includes our efforts, both bilaterally and through the IFIs. In this context, we stressed the importance of appropriate funding for IDA XII, the ESAF and the African Development Bank Group. We also welcomed the progress that has been made toward strengthening the capital structure and governance of the African Development Bank, providing a more solid basis for deeper partnership in the future.

14) We welcomed the progress made in implementing the HIPC debt initiative and note commitments have now been made to provide HIPC debt relief to a number of countries. We applauded Uganda as the first country to receive final HIPC debt relief, reflecting its strong record of reform. We also welcomed the special efforts by the Paris Club, the Bretton Woods institutions and individual countries in reaching a final decision on Mozambique. We encourage all heavily indebted poor countries to take all the steps necessary to embark by the year 2000 on the process of a sustainable exit from their debt problems. We also continue to urge all creditors to provide interim relief to help buttress debtor countries' reform efforts.

15) In order to help countries fight corruption and bribery, we urged that the MDBs should establish uniform procurement rules and documents of the highest standard, and that the members of the OECD and other signatories to the Convention on Combating Bribery should submit the convention for ratification to their legislative bodies -- where necessary -- and should pass any necessary implementing legislation criminalizing the payment of bribes to foreign officials in international business transactions, with a view to the entry of the convention into force and, in that context, elimination of the tax deductibility of such bribes by the end of the year.

Strengthening the International Financial System

16) We reaffirmed our commitment to exploring ways to strengthen the architecture of the international financial system. We welcomed the work going on in a variety of other fora toward this objective, including the APEC Finance Ministers, ASEM, the Manila Group, the G-10, the Special Meeting of 22 countries and the IFIs, including this week's Interim and Development Committee meetings. This work can help build a consensus for action

in the key areas we identified at our February 21st meeting in London:

- promoting more efficient functioning of global markets,
- improving transparency and disclosure,
- strengthening financial systems,
- assessing the role of the international community,
- promoting appropriate burden sharing by the private sector.

17) We are looking forward to discussion of these issues with representatives of emerging market countries at meetings later this week. We confirm our intention to produce a progress report on these issues for the meeting of our Heads of State at the Birmingham Summit in May.

18) We applaud the progress made by the OECD with respect to harmful tax competition, and we look forward to receiving their report before the next G-7 Ministerial prior to the Birmingham Summit.

19) We discussed this and other work leading up to the Birmingham Summit and plans for the pre-Summit meeting of finance ministers on May 8th and 9th.

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
April 16, 1998

Statement of Secretary Robert E. Rubin
IMF Interim Committee
Washington, DC

The period since our Hong Kong meeting has been marked with unprecedented turmoil as the Asian crisis has affected financial markets both within and outside the region. The economic impact has been greatest in those countries most directly affected -- particularly Indonesia, Korea and Thailand -- but others inside and, to a lesser extent, outside the region have also experienced spillover effects. Despite the welcome signs of stability now emerging in response to the implementation of necessary economic reforms, we must guard against complacency. We also need to use this time to begin considering the lessons of the latest crisis, both to relearn old truths and be taught new ones.

Economic Situation

The economic situation in some of the countries at the center of the crisis has begun to stabilize as their authorities implement IMF-supported programs. Korea and Thailand are experiencing a restoration of market confidence. This has fueled a 40 percent appreciation of their currencies and a 30 - 35 percent increase in stock market valuations from their low points around the turn of the year as capital, both domestic and foreign, returns. However, these countries face a difficult road ahead that will test social cohesion and political will. The international community can continue to help to ameliorate the adverse consequences, but only resolute action to keep to the agreed policy course will bring an end to the crisis and a resumption of sustained growth.

In Indonesia, agreement on a revised program supported by the IMF provides a new beginning. The need now is for full, sustained and decisive implementation of their program. The markets and the international community will be looking closely at whether both the letter and the spirit of the commitment to reform are being observed. It is imperative that confidence be restored by a sustained implementation of this commitment.
RR-2370

The contagion effects of the crisis on other emerging markets have so far been contained as these countries have responded quickly to sustain market confidence by adapting economic policies and strengthening financial systems. A temporary slowdown in growth is expected in light of reduced capital inflows and the impact of economic policy adjustments. Nevertheless, most countries should continue to perform well in the years ahead, as the economic stabilization and reform efforts of recent years bear fruit.

Resolution of the Asian crisis requires that the major industrial countries pursue policies to sustain open, growing economies. In the United States, growth is expected to continue at a sustained pace consistent with the productive potential of the economy. Inflation remains subdued, and cost pressures well-contained. The budget will be in surplus this year for the first time in nearly 30 years, with further substantial surpluses over the next five years.

However, a global expansion concentrated in only a few countries experiencing increased domestic demand would quickly become unbalanced and contain the seeds of future difficulties.

As Europe moves toward monetary union, it is important that policies in this region be directed at fostering domestic-demand-led growth, reducing high levels of unemployment, and making Europe more flexible and dynamic. How successful Europe is in this regard will have a lot to do with the success of EMU itself and its contribution to international monetary stability. We are beginning to see signs that the current recovery is becoming wider and deeper. However, unemployment remains at extremely high levels, and a significant reduction will necessitate implementation of labor market reforms and greater openness of product and financial markets.

The situation in Japan poses great challenges to Japanese authorities and the international economy. A sustained global expansion and recovery in Asia cannot be achieved when the second largest economy in the world, accounting for more than half of Asian output, is in recession and has a weakened financial system. Japan must generate substantial growth to help maintain a growing world economy and to absorb a growing share of imports from emerging markets. We welcome Prime Minister Hashimoto's recent announcement of steps to stimulate the Japanese economy. We look forward to substantial and effective actions to achieve the long-promised domestic-demand-led recovery, to restore health to the financial sector, and to make progress on deregulation and openness.

<u>Strengthening the international financial system</u>

The Asian crisis demonstrates anew that global financial markets dominated by private capital flows provide both immense opportunities and great challenges. Our task must be to continue to adapt the global financial architecture to reflect today's realities in order to maximize the benefits while not falling prey to the risks. The international financial institutions, particularly the IMF, have a critical role to play in this effort by promoting greater openness and transparency, by building strong national financial systems, and by creating mechanisms so that the private sector shares more fully in the responsibility for preventing and resolving crises.

Openness and Transparency: For capital to flow freely and safely to where it can be used most efficiently to promote growth, high quality information about each economy and investment opportunity must also be freely available. The IMF introduced the Special Data Dissemination Standard (SDDS) in 1996 to improve the information collection and publication practices of countries accessing international capital markets. At present, 44 countries subscribe to the SDDS and are expected to be in full compliance with this code of best practices by the end of the year. However, recent events and the review of the SDDS indicate that important gaps need to be filled to build on the progress that has been made.

As a first step, we need to consider ways to encourage the nearly 80 percent of the membership which do not subscribe, particularly emerging market economies, to participate in the SDDS, possibly by making full compliance by the end of an IMF-supported program a condition of the program. We believe it could be appropriate for the IMF to publicize which countries subscribe and which do not so that creditors and investors can reflect that status in their decisions.

The provision of timely, accurate and comprehensive data is essential for sound policy-making and effective decision-making by markets. Indeed, institutional investors have a responsibility to ensure that they have adequate information before committing the funds of their shareholders and clients.

The state of a country's foreign exchange reserves is an important leading indicator of potential problems but can only serve this function adequately if information is provided more frequently and includes the extent to which these assets may be encumbered. Consequently, the SDDS should require countries to provide a complete picture of usable central bank reserves, including forward liabilities, and better information on the size, composition and maturity of the foreign currency liabilities of the government and financial sector. As we have also learned that private debts can all too easily become public liabilities, we need to develop ways to collect and disseminate information on the foreign currency liabilities of private non-financial firms and the aggregate financial condition of the banking system.

Expanding the SDDS to provide more and better data should be complemented by wider access to the IMF's assessments of countries' economic policies, financial sectors and statistical systems.

The IMF should build on the favorable experience with Press Information Notices (PINs) by creating a presumption that all members would issue PINs following the conclusion of the annual Article IV consultation. Members should also be permitted to release the full staff report on their Article IV consultation. All countries obtaining IMF loans should be required to release their Letters of Intent and, if applicable, Policy Framework Papers, and to agree to issue PINs. Finally, consideration should be given to creation of ways to enable the Fund to make public its views on a member's performance under an IMF-supported program.

The IMF and other international financial institutions also have a responsibility to make their activities open and transparent as a means of enhancing accountability. The recent external evaluation of ESAF and the proposed review of IMF surveillance by independent experts are steps in the right direction. However, more could be done to dispel the notion of the IMF as a secretive organization by, for example, improving access to the Fund's archival material, releasing reports to the Interim Committee -- such as those for this meeting -- and staff papers on key policy issues, and publishing more summaries of Executive Board meetings.

Financial sector reform: The IMF's recent review of the Asian crisis experience highlighted the key role played by the domestic financial sector as the flash point and transmission mechanism for the crisis and contagion. Rapid growth and expanding access to international capital had run ahead of the development in countries in trouble of a genuine credit culture to assess risk and channel investment efficiently and of an effective financial sector regulatory and supervisory mechanism. The situation was further exacerbated by inconsistent macroeconomic policies, generous explicit and implicit government guarantees, significant injections of public funds to provide liquidity support to weak institutions, and to some extent capital controls that distorted the composition of capital flows.

Some have argued that this experience points to the need to turn back the clock on capital market integration and to slow the pace of future liberalization. In our view, the right response to recent events is not to slow the pace of liberalization but to accelerate the creation of an environment in which capital flows to its most productive uses and which also encourages the strengthening of the financial sector.

At a time when the IMF has become increasingly involved in helping countries realize the opportunities and manage the risks of global capital markets, it is important that its charter reflects the reality of the marketplace. We welcome the progress that has been made in the Executive Board, particularly the broad support for including capital market liberalization as a purpose of the Fund. We look forward to continued progress by the Executive Board toward completion of an amendment.

The international community has a clear interest in helping countries put in place the institutional arrangements to integrate successfully with the global financial marketplace. The Basle Committee has now developed the "Core Principles for Effective Banking Supervision" and IOSCO is already well on the way to developing similar principles for the supervision of securities firms. Consideration should also be given to developing appropriate international standards in other areas related to the underlying strength of the financial system, including accounting and disclosure, loan classification, credit risk management and overall corporate governance. The proposed code of good practices on the transparency of government fiscal activities illustrates the potential for developing standards in the public sector. Also, in conjunction with these standards, we must find ways to foster the creation of a strong credit culture and strengthen the requisite skills in a nation's financial system.

Consideration should also be given to a means to conduct international surveillance of countries' financial regulatory and supervisory systems, comparable to the surveillance of economic policy conducted by the IMF. One approach might be to encourage a joint initiative by the IMF and the World Bank, assisted by regulatory and supervisory experts. The results from such surveillance would assist national authorities in enhancing their practices, and market participants would benefit in terms of reflecting the results in their own decisions. This would in turn help induce greater compliance with standards and adoption of reforms.

Crisis resolution: Our efforts to reduce the risks of crises caused by poor policy or investor decisions need to be complemented by measures to equip investors, governments and the international financial system with the means to deal with those crises that do occur. The ultimate test of resilient national and international financial systems is how they deal with shocks and their ability to limit the broader consequences.

The IMF plays the central role in the system by providing conditional international assistance to give countries the breathing room to stabilize their economies and restore market confidence. To fulfill this responsibility, the IMF must have adequate resources. We share the Managing Director's concern that IMF liquidity has fallen to dangerously low levels that could impair the Fund's operational capacity to respond to renewed pressures and meet normal demands. The United States is making an intensive effort to obtain the necessary legislative approval for our participation in the NAB and quota increase.

However, recent crises have brought home that in a global financial market we need to find more effective mechanisms for sharing with the private sector the burden of managing such problems. In a world in which trillions of dollars flow through international markets every day, there is simply not going to be enough official financing to meet the crises that could take place. Moreover, official financing should not absolve private investors from the consequences of excessive risk-taking and thus create the "moral hazard" that could plant the seeds of future crises.

We do not underestimate the difficulty of developing arrangements which balance the desirability of facilitating international capital flows with the need to equitably share the responsibility for maintaining a stable system. However, there are some steps that the IMF could take now while more fundamental reforms are being examined.

In particular, IMF financing could be used in a manner that would encourage debtors and creditors to resolve debt problems among themselves. This might include, for example,:

- expanding the IMF's policy on lending into arrears to provide greater scope to foster orderly workouts between debtors and creditors;
- increasing the price of external assistance and shortening maturities through greater use of the Supplemental Reserve Facility in emergency situations to heighten the incentives for governments to seek private financing; and,
- conditioning any official support in some cases on appropriate involvement of the private sector.

More ambitious ideas such as an international bankruptcy regime may have great appeal, but do not now seem feasible. However, resolution of debt problems can be fostered by the existence of strong bankruptcy laws and institutions covering debtor-creditor relations.

Conclusion

Developing ways to strengthen our international financial architecture is an urgent and compelling challenge. The ultimate objective of fashioning a strong, resilient global financial system is to underpin a vibrant, productive, growing global economy that provides benefits broadly to workers and investors in all countries. The IMF has a key role to play in this area through the policies which it advocates and the economic reform programs it supports.

The primary focus of the IMF is on sound money, prudent fiscal policies, and open markets. In recent years, the Fund has broadened its perspective to take account of a wider range of issues necessary for economic growth and financial stability. It must continue to do so in order to:

- create the more level playing field in which private sector competition can thrive, including through trade liberalization;
- reduce unproductive government spending, including excessive military expenditures, white elephants, and subsidies and guarantees to favored sectors and firms;
- achieve greater transparency and accountability in government and corporate affairs to reduce corruption;
- protect the most vulnerable segments of society from bearing the brunt of the burden of adjustment; and,
- encourage a more effective participation by labor and the rest of civil society in the formulation and implementation of economic policies, including protection of core labor rights.

We should not underestimate the difficulty or the time it will take to build an architecture for the 21st century. We have begun to take the initial steps but have much further to go. The Asian crisis has pointed us in the direction we must follow. Now, we must show the imagination and courage to get the job done.

-30-

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
April 15, 1998

PRESS CONFERENCE BY TREASURY SECRETARY ROBERT E. RUBIN FOLLOWING THE MEETING OF G-7 FINANCE MINISTERS AND CENTRAL BANK GOVERNORS
WEDNESDAY, APRIL 15, 1998

SECRETARY RUBIN: Good evening. Welcome to the Treasury Department. Let me comment briefly on the G-7 Finance Ministers and Central Bank Governors which we just completed, and then I'd be delighted to respond to whatever you'd like.

This was, I think, a particularly important time to have such a meeting. There are a goodly number of issues around that are very important with respect to the global economy right now and also for the long term. We had, I think, most interesting and most useful discussions which, number one, gave us an opportunity to share and exchange views, and number two, provided a basis for moving forward and for the G-7 providing leadership in the global community with respect to these issues.

As always, we began with Michel Camdessus of the IMF, who presented his or the IMF's views with respect to the global economy and key countries in the world economy. The focus was predominantly, in the subsequent discussions, discussions subsequent to the Managing Director's comments, the focus was predominantly on Japan. I don't think there's any question but there was a shared sense of the critical importance, obviously to Japan, but also very much to Asia and to the world economy, that Japan re-establish strong domestic demand-led growth and that Japan quickly implement a strong program consisting of appropriate fiscal measures and structural reforms, including in the case of structural reforms strengthening the banking system and also opening the Japanese economy. The objective would be, as I said a moment ago, to provide enduring long-run, strong, domestic demand-led growth in Japan.

We also, as Finance Ministers always and Central Bank Governors always do, discussed exchange rates. You have the communique, so that you have a summary of our discussions. Let me just read the language as a way of expressing

RR-2371

what we did:

"We reaffirmed our view that exchange rates should reflect economic fundamentals and that excess volatility and significant deviations from fundamentals are undesirable. We emphasized that it is important to avoid excessive depreciation where this could exacerbate large external imbalances. In light of this, we support appropriate steps by Japan aimed at stimulating domestic demand-led growth and reducing external imbalances, thus also correcting the excessive depreciation of the yen. We will continue to monitor developments in exchange markets and to cooperate as appropriate."

I raised the question of the Year 2000 computer compliance issue as an important, extremely important with respect to the functioning of the world economy, but I was focused more specifically on the functioning of the global financial markets and the financial services sectors around the world. We had a very good discussion of the importance of all nations, both in the public sector and private sector, having robust programs in place and robust programs in place quickly, because there is a long lead time on getting these kinds of issues resolved.

We discussed the situation in Asia. We welcomed progress toward restoration of financial stability. However, we also agree this is a complicated time and that there are many, many challenges ahead. In particular, it is essential that countries follow through on and continue to implement on a sustained basis the macroeconomic and structural reform programs that they have worked out and then agreed to with the IMF.

The IMF, as you know, is absolutely central or has been central to this reform program in Asia, and it is, we all agreed, essential that in all of our countries approval be obtained as quickly as possible and very quickly for full funding of the IMF. In this case, we have repeatedly called for Congress to act on the IMF and act now.

Finally, we discussed how to move forward on the enormously important, but also enormously complex, question of financial architecture. It was a very energetic and well-informed discussion. It was obvious that the Finance Ministers and Central Bank Governors had given a lot of thought to this subject.

I think it would be fair to say that the discussion broke down into three areas: better disclosure and transparency, with the objective of improving the effectiveness of the market in providing discipline -- in that connection, I might add there was a focus, too, on the question of how well or effectively creditors and investors use the information that's available and how rigorous are they with respect to evaluating, analyzing, and weighting risk, and how requisite that is if markets are going to perform effectively in performing their disciplining function.

Secondly, strengthening the national financial systems; and thirdly, having a system in which the private sector more fully and appropriately bears the consequences of its decisions.

The communique has a brief summary of our discussion, but the discussion went way beyond that which is in the communique. The reason for that was we have another G-7 Finance Ministers meeting coming up early May in London. A good bit of that meeting will be devoted to this subject, and that communique will then present the fullness of thought developed both at this meeting and in the interim period and then at that meeting.

And with that, I'd be delighted to entertain questions.

QUESTION: Mr. Secretary, I know your sensitivity to talking about U.S. monetary policy and your respect for the independence of the Federal Reserve, but recently there have been some indications from various Federal Reserve officials that some tightening of monetary policy might be necessary before too long if the economy doesn't slow down. And if this happens, presumably there would be some further increase in the value of the dollar, although long run there's been some speculation that if the trade deficit widens the dollar might reverse.

What would be your feeling if the Fed does feel forced to raise interest rates, both in terms of its domestic and international implications?

SECRETARY RUBIN: I think I'll stick with what you said my sensitivity is. No, I've spent almost five and a half years not commenting on the Fed and articulating our respect for the independence of the Fed, and I'll stick with that.

QUESTION: Mr. Secretary, you, Mr. Camdessus and others have said you've been waiting for an opportunity to ask the Japanese the details of their taxing, their spending, and their restructuring, deregulation. Were you able to?

SECRETARY RUBIN: The Japanese officials laid out the framework, which they've also laid out in public on various occasions, and in response to that discussion of a framework, heard in response to that discussion of a framework the importance that other members of the G-7 attached to Japan having a program that was in fact effective in restoring enduring, long-lasting domestic growth.

I think it would be fair to say that the details have not yet been released on the fiscal package that we discussed earlier, and we look forward to seeing those details. But you know, when those details come out, and I gather just from what I've seen in the press that that's expected to happen some time in the next few weeks, the markets and the private sector financial institutions around the world will provide an evaluation and there will be a judgment made, which I presume will reflect itself in various ways, as to whether that program is sufficient to be effective in getting Japan back on an enduring domestic demand-led growth track or not.

Mike?

QUESTION: You were firm in the statement on exchange rates that Japan take appropriate steps to stimulate its economy. Did what you heard today meet that test?

SECRETARY RUBIN: We said when the Prime Minister announced his framework, as you may remember, his fiscal framework, that we welcome the announcement, we welcome the statement of intention with respect to roughly 10 trillion of fiscal stimulus, and the key now was to come forth with the details, but, more importantly, the key was to have a program, whether that's the right size program or not, that would accomplish the objective. And the world still hasn't seen the details, and when the details are seen then the world will evaluate it and make whatever judgments it does.

But the final proof is going to be in what effect it has on the economy and in how these enormous numbers of private sector analysts who do country sector kind of work evaluate this.

QUESTION: Are you saying in this statement essentially that Japan's currency problems are Japan's problems, that it's not external, that the way to deal with the value of the yen is for Japan on its own to take action?

SECRETARY RUBIN: Well, what we said in some combination of the communique and my -- well, I guess the communique because I stuck with the communique language, was that there is shared concern about the weakness of the yen. Beyond that, I think I'll just stick with what I've said, because I think it kind of speaks for itself.

QUESTION: Mr. Secretary, can you say whether there was any specific discussion of joint intervention?

SECRETARY RUBIN: There was not.

QUESTION: Mr. Secretary, why this time did Russia not participate in the meeting of the G-7?

SECRETARY RUBIN: Well, the Russian officials, I understand it, will be at the meeting tomorrow night on financial architecture, and we would have been delighted to have them here for a discussion of circumstances in Russia, because I think it's been a very useful process. But you'd have to ask them why they weren't here, but they certainly were invited and would have been enormously welcome. I think that's been a very good part of our process.

But they will be here, I understand, tomorrow night for the financial architecture discussions, and we very much look forward to seeing them.

QUESTION: Mr. Secretary, do you think a 4 trillion yen temporary income tax will not be enough to stimulate domestic demand in Japan to support reducing the consumption tax back to 3 percent?

SECRETARY RUBIN: I don't think I want to get into specifics -- in fact, I know I don't want to get into the specifics of the Japanese tax program. I think those are the judgments the Japanese government needs to make, and I think I'll stick with what I've said, which is that the IMF, the OECD, the G-7 Finance Ministers here, all expressed the view that it was very important for all -- Asia, Japan, the rest of the world -- that Japan get back on this long-lasting, enduring path of domestic demand-led growth.

The specifics, the program that it takes to get there, it seems to me is really an issue I don't want to get into.

QUESTION: Mr. Secretary, if you want comment on the contents of the package, perhaps you'd say something on the timing.

SECRETARY RUBIN: Well, when I said I didn't comment on the contents, we don't have the details yet. That's what I was saying. Then I was asked hypothetically, if there was one set of the contents, what would I think. And so I said I wasn't going to comment on the hypothetical contents.

QUESTION: But in terms of timing on implementation, the communique says "to implement quickly a strong program."

SECRETARY RUBIN: Right.

QUESTION: Does that mean before the G-7 Summit in Birmingham or some time this year?

SECRETARY RUBIN: Oh, "quickly" I think means, if you think of "soon" as a range, "quickly" is on the early end of the range.

(Laughter.)

SECRETARY RUBIN: We were trying to provide precision with that, so that was why we said it that way.

QUESTION: Mr. Secretary --

SECRETARY RUBIN: Was that useful?

Yes?

QUESTION: Mr. Secretary, understanding your reluctance to specify what Japan should do on tax cuts, but as a general economic matter if you want to stimulate domestic demand what's the best way to do that, permanent tax cuts or temporary tax cuts?

SECRETARY RUBIN: Very good, Ed.

(Laughter.)

SECRETARY RUBIN: The best way to do that is with tax cuts that accomplish the purpose.

(Laughter.)

SECRETARY RUBIN: I really don't -- look. I think we need to see the details. I think the world needs to see the details, and I don't want to get ahead of the announcement. I just don't think that's the right thing to do.

But I think -- and I know I'm just repeating myself in what I'm about to say -- the key is to have a program that is effective in accomplishing the purpose.

Bob?

QUESTION: Mr. Secretary, in the exchange rate portion of the communique it says, in this light "we support appropriate steps aimed at stimulating domestic demand-led growth, thus also correcting excessive depreciation." Are you saying there specifically that if they have this sort of appropriate package that you would expect the yen to strengthen?

SECRETARY RUBIN: No, this was not intended to be a -- this was not intended to be a prediction with respect to exchange rates. It was simply meant to be a statement of support for steps that were designed to stimulate domestic demand-led growth. It says "In light of this," and I guess that does suggest that people feel there is a relationship between the health of the Japanese economy and their exchange rates.

QUESTION: Mr. Secretary --

SECRETARY RUBIN: I think that would be a fair inference.

QUESTION: Mr. Secretary, did the Japanese officials give you any indication whether they were planning to link any of those fiscal steps perhaps with, for instance, market intervention as they go forward?

SECRETARY RUBIN: With market intervention on their part?

QUESTION: Yes.

SECRETARY RUBIN: They didn't discuss it. I do not know.

QUESTION: Mr. Secretary, you welcomed their actions when they were in the currency markets. Do you believe that intervention on its own will be enough to correct excessive depreciation?

SECRETARY RUBIN: You used it in the plural. They intervened; we welcomed that intervention.

QUESTION: Right.

SECRETARY RUBIN: Correct. But in all of our statements what we have said is the key is to get domestic demand-led growth on a long-run basis, an enduring basis, back up to a level where you have a strong and healthy domestic economy in Japan.

SECRETARY RUBIN: Mr. Secretary, there have been some reports that you were looking for the Japanese to come, you and others were looking for the Japanese to come, to this meeting armed with more details, more specifics about their plan. Is that a mischaracterization?

SECRETARY RUBIN: I can speak for myself. I wasn't. I was hoping we could have a conversation, which we did have, about the importance of -- the sort of thing we've just been talking about, the importance of Japan getting back on track, and that's exactly the conversation we had.

QUESTION: Would you have preferred to see more details at this point?

SECRETARY RUBIN: Well, I think they've said that they expect to have details -- my recollection is that they've said they expect to have details in the next few weeks. I did not expect to see details. I'll speak for myself: I did not expect to see details at this meeting, if that's your question.

QUESTION: Mr. Secretary, in your Brookings speech is the first time I recall you explicitly referring to Chilean controls on inflows and prudential regulations to limit access to foreign currency borrowings, and you also I believe mentioned the possibility of lending into arrears. Does this mean -- are you being polite and putting this on the table in advance of the G-22 meeting or are you saying that Treasury now endorses those two concepts?

SECRETARY RUBIN: Well, on the Chilean capital controls, you might remember what I said was that that is an idea that some people are advocating, and then I said -- I don't remember the exact language, but something to the effect that, whatever its merits may be or its drawbacks, that the key was not the short-term capital controls, but rather having sound underlying policy.

No, I do not think that should be read as an endorsement of Chilean capital controls. I was just saying that this is something -- in the interest of completeness, I just wanted to raise the issue, say it was there. I'm sure it'll be debated. But however that debate may come out -- and I took the trouble in the speech to point out that there are significant drawbacks in that program. But however that debate comes out, because reasonable people can have different views on that, that the key was not that program; the key was the sound underlying program. That should not be read as an endorsement.

QUESTION: But if there is that sound underlying program, then controls in that sense would make sense? They have merit?

SECRETARY RUBIN: No, that's not what I was saying. That's what you're saying?

QUESTION: I thought that's what you were saying.

SECRETARY RUBIN: What?

QUESTION: I thought that's what you were saying.

SECRETARY RUBIN: No, no, that's not what I was saying. No, no. I was saying that undoubtedly there will be a debate on these things, that we think there are real drawbacks, but this is a debate on the merits. But independently of that debate on the merits, the key was not these capital controls; the key was a sound underlying policy.

On lending into arrears, yes, we do think lending into arrears is an idea that is worthy of very serious consideration in the effort to bring the private sector into an appropriate place with respect to burden-sharing.

QUESTION: Mr. Secretary, did you hear any accusations toward Japan's slow motion?

SECRETARY RUBIN: Toward what?

QUESTION: Toward Japan's slow motion.

SECRETARY RUBIN: No. I think what I've said has given you as good a sense of the discussion, a pretty complete sense of the discussion with respect to Japan.

QUESTION: Mr. Secretary, on that, on the issue of excessive depreciation of the yen, were the implications as far as Asia were concerned discussed and what was said?

SECRETARY RUBIN: There wasn't a great deal of discussion about the implications for Asia of the excessive depreciation of the yen. There may have been some. I don't recollect there being very much. What there was was -- and I think it gets in a sense to the same point -- there was a discussion or there was discussion about the importance of a strong Japan to the rest of Asia, and particularly to the Asian countries that are in trouble, and I think that would include -- although it did not get discussed at length, but I think it would be fair to say that that, at least my impression is, that included this whole range of issues around the benefits of a strong Japan.

QUESTION: How much concern is there about a strong U.S. stock market and what impact that might have, an overly strong stock market, and what impact that might have if there was a correction? There are actually concerns about a correction on Wall Street.

SECRETARY RUBIN: We didn't discuss that in quite the way you've just said, Bill. There was some discussion, not just of the United States, but in a broader sense, about the effect, the impact of wealth effects of a stronger market on consumption, and therefore on economic activity. And there was some discussion about issues relating to this sort of broad category of assets and asset valuation and things of that sort. But it didn't hone down quite the way you just discussed it.

QUESTION: Was there any overarching conclusions drawn about the state of the world asset market, particularly in the West?

SECRETARY RUBIN: No, I don't think so. I think it was more an exchange of sort of analytic thinking, rather than expressions of conclusions.

QUESTION: Mr. Secretary --

SECRETARY RUBIN: Let me -- yes, sir.

QUESTION: I know you said you were going to leave the discussion of financial architecture to the early May Finance Ministers meeting in London, but this morning Canadian Finance Minister Paul Martin tabled for the press a proposal, a blueprint that he had, for a mechanism for a watchdog on financial supervision --

SECRETARY RUBIN: Yes, he brought that up at the meeting.

QUESTION: He brought that up? You mentioned it without a specific blueprint yesterday in your speech. And the British, Gordon Brown, also had a proposal he was going to table today. Did Gordon Brown table that? What was that discussion like, and where are you on that issue?

SECRETARY RUBIN: Well, Paul Martin did discuss the possibility of some sort of a coordinating mechanism, with the details to be fleshed out. And Gordon Brown did a very thoughtful job of framing the whole discussion of architecture, also discussed the importance of effective coordination.

What we're going to do on all of this, and the reason we didn't put much in the communique is, between now and the meeting in London we're going to have our staffs work on Paul Martin's suggestion particularly, or at least some variant thereof. And Gordon Brown, Paul Martin, and ourselves each asked one person to get in touch with each other and try to spearhead that a little bit.

QUESTION: So you're going to work on the specific idea of a joint IMF-World Bank committee?

SECRETARY RUBIN: Well, that's only one possibility. I think it's a little too early in the game to know -- in fact, I know it's a little bit too early in the thinking process to know where this might come out. But one possibility would be, not necessarily quite the way you've said it, would be some kind of a coordinating mechanism that might involve the BIS as well and others.

But I think you're being more specific than anybody here would have been prepared to be at this point.

QUESTION: I was just quoting Mr. Martin.

SECRETARY RUBIN: What?

QUESTION: I was just quoting Mr. Martin in his speech.

SECRETARY RUBIN: Yes. I think this was the idea he brought, and it seemed to me at least there was broad-based agreement that some kind of a coordinating mechanism is a very good idea to consider -- whether we should do it or not is another issue, but to consider. But now we have to see what it looks like, what form or forms that might take that we could take a look at, and how it would work and things of that sort.

QUESTION: Mr. Secretary, you still support a strong dollar, don't you?

SECRETARY RUBIN: Yes.

(Laughter.)

QUESTION: Do you now support a strong yen, too?

SECRETARY RUBIN: I certainly support a strong dollar. I think, with respect to the yen, I'd put our, my views at least, a slight bit differently if I may, which is that -- and you've heard me say this before -- the Japanese government has on many occasions, or Japanese officials have on many occasions, expressed their concern about an excessive weakness in the yen, and it's that concern which we have shared.

QUESTION: Mr. Secretary, the communique talks about growth in Europe picking up a bit this year and it seems to hint that there are concerns that it might not be balanced growth, but perhaps exports are leading domestic demand. Did you have any kind of discussion about that and can you sort of tell us what that --

SECRETARY RUBIN: Blair, the answer is we didn't. It was on the agenda, but we spent a good deal more time on Japan than we had expected to, and so we had to rush through some parts of the agenda. Michel Camdessus, if I remember correctly, seemed to feel pretty good about the --

(Loud microphone noise.)

SECRETARY RUBIN: That was a mating of our two microphones.

In any event, he seemed to express, as I recollect it at least, relatively positive views about domestic demand growth in Europe, and we did not have a specific discussion of it.

QUESTION: Mr. Secretary, what proportion of the meeting did you spend on Japan?

SECRETARY RUBIN: A limited portion, but we had divided it up into -- no, we divided it up into segments, and the European, the Europe part, was going to be in the same segment as the Japan part. But since the Japan part ran a little longer than we thought, we didn't really spend any appreciable time on Europe.

QUESTION: How would you characterize the discussion on Japan? Was it heated?

SECRETARY RUBIN: This is Finance Ministers and Central Bank Governors.

(Laughter.)

SECRETARY RUBIN: Our idea of heated is somebody has an extra glass of water or something.

No, I would not describe it as heated. But I would describe it as interested. That is to say, I think that the Japanese government officials very much wanted to express their views with respect to these issues, and I think other G-7 Ministers and Central Bank Governors wanted to express their concerns and their focus on the enormous importance of the objectives being achieved.

So I'd say it was very business-like atmosphere.

QUESTION: So nobody had a drink of real water, then?

SECRETARY RUBIN: What?

QUESTION: No one had a drink of real water, then?

SECRETARY RUBIN: Well, we were looking forward to the real water.

I'd say it was very business-like.

Why don't we take one more and then I think we'll call it a day. We'll take two more, then we call it a day.

QUESTION: Mr. Secretary, can you talk a little bit about how long you think it's going to take for Japan to become strong again? You seemed to yesterday make some kind of equation with what was going on with the U.S. with our fiscal issues and how that took a period of time.

SECRETARY RUBIN: No, no. All I said was that I can understand how it can take a country time to come to grips with the very difficult decisions that need to be made sometimes. We had terrible fiscal deficits for a long time and it took us a long time, until 1993 with the deficit reduction program that President Clinton put in place, before we turned that around.

And I think the critical time has come now for Japan, and Prime Minister Hashimoto took very important steps, what was it, a couple of weeks ago, whenever it was, and we welcome those. How long it will take for Japan, assuming that a good program is put in place, to get back to a high rate of growth is not a question I have an answer to. I think the important thing is to take the right steps and then, hopefully, in the fullness of time the right things will happen.

One more question. Mike?

QUESTION: The language discussing inflation and growth in Europe and the United States in the communique is milder than the last communique. Is there a feeling that progress, more progress, has been made on inflation and that the ministers are much more sanguine about the relationship between growth and inflation at this point?

SECRETARY RUBIN: I guess I don't know how they feel about the relationship between inflation and growth, but since inflation was not -- in the discussions -- and the discussions were pretty jam-packed. We had a very full agenda. In the discussions there was no -- nobody raised concerns about inflation. I guess that suggests, Mike, that people feel that inflation conditions are in pretty good shape.

Thank you all very much. Have a good night.

(Whereupon, at 6:32 p.m., the press conference was adjourned.)

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

FOR RELEASE AT 6:15 P.M. EDT
April 16, 1998

Statement by Treasury Secretary Robert Rubin
At the Special Meeting of Finance Ministers and Central Bank Governors

I want to welcome everyone to Washington and thank you for attending this meeting.

The issues on our agenda this evening are critical to the health of the global economy, to the economic well being of all our countries in the years ahead, and to broadening participation in the benefits or the global economy. The Asian crisis has shown how developments in any one of our countries can have an impact on all of our countries, in the interdependent global economy and global financial markets. So, we must work together to make the most of the opportunities offered by today's global economy and global marketplace, while minimizing the risks.

This is why President Clinton and the leaders at the APEC meeting in Vancouver agreed last November to organize a gathering of finance ministers and central bank governors to move forward the reform of the architecture of the global financial system. In this meeting tonight there are representatives here from countries in every region of the world -- from both developed and emerging market economies. No matter the differences between our nations one thing is clear: only together can we achieve a stronger, more resilient international financial system.

We are all working in a number of fora to address this challenge and to learn from the recent crises in Asia. The international financial architecture was a major item of discussion among the G-7 Finance Ministers and Central Bank Governors on Wednesday. Today, the Interim Committee of the IMF discussed several important, initial steps for strengthening the current system. Related issues are also on the agenda for the Development Committee tomorrow.

RR-2372

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

In our meeting this evening, I hope that we can explore further several key elements of this challenge -- particularly the need for greater transparency and disclosure; the task of strengthening financial systems, in individual economies and globally; and the challenge of creating mechanisms that result in private investors and creditors more fully bearing the consequences of their decisions.

Let me explain why I think these are particularly fundamental issues.

With the complex global financial markets of today, creditors, investors and policy makers need more types of information than ever before. They also need to use that information well, and appropriately balance risks and rewards. To be able to anticipate and respond to problems, creditors, investors and officials need to know about the build up of potentially unsustainable situations. They need to know about both on and off-balance sheet positions, and given the speed at which these can be built up and unwound, they need information frequently and with minimal lags.

While progress has occurred, there needs to be a substantial improvement in the quality and quantity of economic and financial information available to the public and in increasing the transparency of the IMF--including public distribution of IMF surveillance to a greater extent.

Second, recent events have further reinforced what many of us know from experience -- the importance of a strong domestic financial sector. Developing a strong financial system that is a match for the challenges of a global financial market is not an easy process. The institutions and laws that we have in the United States to supervise our own system were developed over a period of a hundred years, and nonetheless we had a severe financial sector problem with our S&L crisis in the 1980s. And now, with the pace and complexity of the global financial market, the task is even more complex.

We believe that the time has come for a more systematic approach to promoting strong national financial systems. This should include broader and more effective implementation of the Basle "core principles" for banking supervision. In addition, we believe that high quality core principles or standards should be developed and adopted in additional areas that affect the underlying strength of a financial system, including, for example, regulation of securities firms, accounting standards and disclosure practices, loan classification, credit risk assessment, bankruptcy regimes, and overall corporate governance. In conjunction with these standards, we must find ways to foster the creation of a strong credit culture and strengthen the requisite skills in a nation's financial system.

Finally, while it is an enormously complicated and difficult task, we must do our best to build effective mechanisms for creditors and investors to more fully bear the consequences of their actions. We will never be able to prevent crises from happening entirely. And when they do occur, there is an important role for the official sector, particularly the IMF and World

Bank, to encourage sound policies and provide breathing room for countries as they seek to stabilize their currencies, restore market confidence, and resume growth. Among other things, such intervention can help limit the risk that a crisis will worsen or spread.

But in a world in which trillions of dollars flow through international markets every day, there simply will be not enough official financing to respond to the scale of crisis that could potentially occur. Furthermore there is a risk that by providing rapid and plentiful financial assistance in the face of crisis, the international community could shield investors from the consequences of bad decisions and thereby sow the seeds of future crises. While some protection of creditors may be an inevitable by-product of the overarching objective of restoring financial stability, this should be kept to a minimum.

I believe that our discussion here today is critically important. Ongoing dialogue among policy makers from economies across the spectrum will be increasingly important as the international community works toward reform of the architectural of the global financial markets. We all recognize that many of the issues are enormously complex, that reaching international concensus will be complicated, and that reform will not occur in one moment, but will be accomplished in pieces over an extended time. The purpose here tonight is to exchange views, to learn from each other, and to move the process forward. We do not expect to reach definitive conclusions tonight, but we do expect to issue a Chairman's statement, setting up three working groups to carry this work forward.

-30-

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
April 16, 1998

PRESS STATEMENT OF THE NORTH AMERICAN FINANCIAL GROUP

The Central Bank Governors and Treasury/Finance Ministers of Canada, Mexico, and the United States today convened the fourth meeting of the North American Financial Group (NAFG). The Ministers and Governors reviewed financial and economic developments in the three countries and discussed the implications of recent financial instability in Asia for their economies. They highlighted the strong economic performances of all three countries over the past year and agreed that the three economies faced good prospects for continued growth during the coming year despite the financial crisis in Asia.

The Ministers and Governors noted that the United States economy completed its seventh straight year of expansion, with strong growth, little sign of inflationary pressures, and rates of unemployment that remain near their lowest level in almost a quarter of a century. Sound monetary and fiscal policies, including what may well be the first balanced budget in a generation this year, are contributing to the ongoing strength of the U.S. economy.

The Ministers and Governors remarked upon Mexico's strong economic performance last year, including 7 percent growth and a continued decline in inflation. They expressed confidence in Mexico's outlook for solid growth and lower inflation again this year, supported by continued strong fiscal and monetary policies, and concluded that economic disruptions in Asia were not likely to threaten that positive outlook. They agreed that Mexico's recent budget cuts were an appropriate and timely response to lower oil prices. They remarked upon the continued expansion of trade between the three countries and noted that last year Mexico became the United States' second largest export market, second only to Canada.

The Ministers and Governors noted Canada's ongoing fiscal progress, reflected first in the elimination of borrowing requirements in fiscal year 1996-97, the first balanced budget in 30 years, and in the current fiscal year, the implementation of a debt repayment plan. Canada's fiscal success and low inflation have created the conditions for continued strong growth and job creation. This view is shared by major international organizations, which expect Canada to lead the G7 in growth again this year.

-30-

RR-2373

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
April 16, 1998

Contact: Kelly Crawford
(202) 622-2960

U.S. TREASURY RECOMMENDS RELEASE OF REMAINING RESOURCES OF POLISH BANK PRIVATIZATION FUND

Treasury Secretary Robert E. Rubin today told Polish Deputy Prime Minister Leszek Balcerowicz the United States is prepared to recommend to the operating committee of the Polish Bank Privatization Fund (PBPF) that the PBPF release to Poland the remaining $410 million in the fund, including the $210 million U.S. share.

Secretary Rubin noted in his meeting today with Balcerowicz that Poland had been a leader among transition economies and has achieved sustainable growth, positioning Poland now to finish the job of stabilization through strengthening fiscal policies and bringing inflation down into the low single digits. Secretary Rubin observed that this success owes much to Mr. Balcerowicz, who implemented Poland's "Big Bang" reform strategy in the early 1990s, as well as to sustained stabilization policies since then.

The PBPF was created in 1992 with U.S. urging to help Poland jettison its state-owned commercial banking system. Major progress has been made: six key banks, including the former large state trading bank, have been privatized and further significant privatizations of specialized state banks are expected this year. Foreign banks have also established a major stake in the Polish financial system. The PBPF is testimony to the tangible benefits of U.S. and multilateral support for Poland's transformation.

The 10-member operating committee of the PBPF will meet on Friday, April 17, to act on this recommendation. If the Committee accepts the recommendation, the United States will act promptly to transfer the U.S. share of over $210 million to Poland, Rubin said.

-30-

RR-2374

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

Chairman's Statement
Special Meeting of Finance Ministers and Central Bank Governors
April 16, 1998

Finance Ministers and Central Bank Governors from a number of economies from around the world[1] met in Washington on April 16 to examine issues related to the stability of the international financial system and effective functioning of global capital markets. The Managing Director of the International Monetary Fund, President of the World Bank, General Manager of the Bank for International Settlements, Secretary General of the OECD, and the Chairmen of the Interim and Development Committees also attended the meeting.

The Ministers and Governors welcomed the opportunity to gather on an informal basis to discuss key issues facing the global economy. They noted the particular value of sharing diverse experiences in order to deepen their understanding of the functioning of the international economy and financial markets.

In their discussion, Ministers and Governors emphasized that sound domestic policies are fundamental to healthy and robust national economies and financial sectors and increasingly to the prospects for other countries and the world economy as a whole. They emphasized the benefits of greater integration and globalization but also noted that this process brings new risks, making it more essential than ever to have both good domestic policies and a strong international financial system in place.

Ministers and Governors agreed that it is critical to strengthen the international financial system in order to make it more resilient and to enable countries to benefit more fully from globalization. They agreed on the importance of action in three key areas: increased transparency and disclosure; strengthening financial systems and market structures; and appropriate burden-sharing between the official and private sectors in times of crisis. They announced the formation of working groups to contribute to the international dialogue on how to proceed in these areas. These working groups will consult and cooperate with others in the international community considering similar issues. Ministers and Governors asked that the groups provide reports on their progress in the autumn that could be taken up in discussions in international fora.

---

[1] Argentina, Australia, Brazil, Canada, China, France, Germany, Hong Kong SAR, India, Indonesia, Italy, Japan, Korea, Malaysia, Mexico, Poland, Russia, Singapore, South Africa, Thailand, United Kingdom, and the United States.

RR-2375

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
April 17, 1998

STATEMENT OF TREASURY SECRETARY ROBERT E. RUBIN AT THE DEVELOPMENT COMMITTEE OF THE WORLD BANK AND THE INTERNATIONAL MONETARY FUND WASHINGTON, D.C.

Since the fall meeting of the Development Committee, we have all been focused on one of the most difficult and complex financial challenges in the post-war period. At this juncture, some of the countries most deeply affected appear to be on the path toward stabilization. But no one anticipates a rapid recovery in growth, and it is clearly no time for complacency.

It is also clear that these countries can, through their own efforts, avoid the long period of stagnation that Latin America suffered as a consequence of the debt crisis of the 1980s. The same Asian countries that have experienced instability in recent months have great underlying strengths. They have high savings rates and most have solid support for education and strong work ethics. With a sustained commitment to necessary reforms, they are well-positioned to re-establish strong economic growth and sound currencies. And the International Monetary Fund, the World Bank, the Asian Development Bank and the donor community have demonstrated a willingness to go to exceptional length in support of stability and reform.

Implications of the Recent Instability in Asia

I would like to turn to what the international community can and should be doing to build stronger national economies and a more sound global economy. In our view, the appropriate program rests on four elements:

- o strong domestic actions to restore stability through macroeconomic policy adjustment and structural reforms;
- o temporary and conditional financial support by the international community to provide a bridge to recovery;
- o supportive policies in other individual nations to help restore market confidence;
- o a stronger international financial system that fosters policies to reduce the risk of financial instability and to prevent further crises.

RR-2376

Strong Domestic Actions: Clearly, the key to restoring stability is national policies that address the specific causes of a country's crisis. Major areas include measures to strengthen the domestic financial system; to open protected sectors to both foreign and domestic competition; to reduce distortions in the international flow of resources; and to implement appropriate monetary and fiscal policies.

More than ever, the local and international business communities are looking for transparent and accountable governance, or what we call good governance. They want banking systems that are founded on transparency and sound regulation and supervision. They want markets that are open to competition and subject to appropriate corporate regulations, and monetary and fiscal policies based on stable and transparent rules. All countries have policy options to make real progress in each area. For instance in the fiscal area, we would argue in support of the IMF's code for fiscal conduct and for publicly vetted budgets. A transparent budget process is more likely to result in sound spending decisions with more for physical and social investment, such as primary heath and education, and less for subsidies for the affluent or unnecessary military expenditures. This sends an enormously powerful signal to markets and encourages development effectiveness.

Temporary and Conditional International Assistance: The International Financial Institutions must play a major role in supporting countries in crisis. In Asia, they have shown that they can react quickly to support countries that are committed to taking needed reforms. They have played a vital role in helping countries devise and implement these reforms and have taken on structural issues, such as banking and corporate governance, which extend beyond the traditional focus on monetary and fiscal policy and balance of payments adjustments. The IFIs are concentrating on structural issues because they are among the underlying causes for the crisis and must be addressed to restore investor confidence. By providing temporary assistance, the IFIs have given these economies the breathing room to undertake these vital reforms. Effective coordination among the IFIs, including the IMF, World Bank and the ADB, has been key to the success of recent efforts. But we also believe that IFI cooperation and coordination can be further improved through better information exchange, joint missions and activities linked to comparative advantage and a clearer definition of the division of labor across institutions. We believe a partnership of equals with each institution concentrating on its respective areas of strength and reinforcing the actions of the other is essential.

Supportive Actions by the U.S. and Other Individual Countries: In an era of interconnected markets, individual nations have a part to play in supporting a rapid return to growth and the continued expansion of trade. Several countries, including the United States, have indicated a willingness to provide additional temporary assistance in some situations if a country is continuing with reforms and unexpected developments call for supplemental resources. Like other countries, we are seeking legislative approval for U.S. participation in the IMF quota increase and in the IMF's New Arrangement to Borrow to provide needed resources for the global financial system. The U.S. and others are extending help through short-term export insurance to support the import financing needs of countries in crisis.

Long-Term Strengthening of the International Financial System: Recent events in Asia have highlighted the importance of strengthened safeguards in the global financial system -- an area of concern for us for several years. We encourage others to join with us to build upon the extensive work undertaken since the Halifax Summit to promote financial stability in global markets and to strengthen financial systems in emerging economies. At President Clinton's initiative, the United States has convened a meeting this week of finance ministers to continue these efforts and start developing a consensus on policies to deal with new challenges to the international financial system. Issues of concern include measures to make global markets function more efficiently through increased transparency and disclosure; steps to strengthen national financial systems and supervision; better surveillance and an improved IFI response to financial crises; and appropriate burden-sharing by the private sector in resolution of crises. Our shared objective should be agreement on measures to head off or minimize the impact of future systemic financial difficulties.

MDB Resources

World Bank Income Dynamics: Net income is a critical issue. We all have a shared responsibility to safeguard the Bank's financial soundness and maintain the Bank's high standard of financial integrity in international capital markets. This is fundamental to our ability to finance effectively the evolving development challenges of our borrowing members. We, therefore, need to move quickly and collaboratively to address the Bank's increasingly complex financial framework, including the prospective long-run decline in net income, changing reserve requirements, and the vital importance of maintaining net income support for priority development needs.

We need to look much more carefully both at how the Bank earns income and how it spends it, and we will have to be alert to identifying the opportunities -- as well as the difficult choices and trade-offs -- available for reducing costs and increasing revenues.

On the cost side, we seek a more efficient Bank, producing better results on the ground and at lower cost. We applaud Jim Wolfensohn's initiative to establish the Cost Effectiveness Review, which identified a broad range of savings opportunities to help meet the essential budgetary benchmarks of the Strategic Compact, implementation of which will require aggressive and systematic attention. We urge the Bank and its members to seek every opportunity for further savings beyond those which have already been identified.

There must be more selective use of Bank resources with greater concentration on those activities which the Bank does best and reduced attention on those activities which the Bank's development partners or the private sector can carry out more effectively. We note President Wolfensohn's efforts to seek a better prioritization of the Bank's activities in its borrowing countries. A rigorous and systematic examination of operational priorities, grounded firmly in the commitment to selectivity, will produce clear opportunities for further budgetary savings.

On the revenue side, we all should be concerned that the spread the Bank currently charges on its loans does not cover its administrative costs, and that IBRD loan charges are significantly lower than those of the regional development banks. As a result, the Bank is relying on its equity for its income. We believe strongly that IBRD charges should cover administrative costs at a minimum. This is reasonable. The development framework of IBRD loans brings substantial benefits to borrowers which are not available from most alternative funding.

There are a number of potential sources of additional revenue. While we are prepared to consider seriously other ideas, I believe we should focus on: (1) eliminating the interest waiver on existing loans, and (2) the use of a flexible pricing structure on new loans. I understand borrower reluctance to increase charges. However, as the prime beneficiaries of a financially sound institution, borrowers have a vested interest in strengthening the capacity of the Bank to maintain its financial standing and ability to lend.

Implementation of the HIPC Initiative: In September 1996, we agreed on a momentous initiative to support sustainable development and growth and assure manageable debt burdens for heavily indebted poor countries. During the past year and a half, considerable effort has gone into developing concrete mechanisms to implement this initiative by all creditors. We are pleased that key International Financial Institutions have now agreed to participate. Moreover, eight countries have demonstrated a sustained commitment to policy reform. Six of these have received firm commitments for HIPC relief, and we expect similar decisions soon for the other two.

In recognition of its strong reform effort, Uganda was the first country to receive final HIPC debt relief this month totaling about $650 million in nominal debt service relief. This is the last step of a process of economic reforms and debt relief that began in 1992 with a Toronto terms reduction (50%) in the Paris Club and was followed by successively deeper debt reductions that will allow Uganda to exit from the debt rescheduling process. We believe that Uganda sets a fine example for implementation of the HIPC debt initiative. HIPC action will free up resources that can be used to address poverty and poor social conditions, areas that have received increased emphasis under recent reform programs. New financing for Uganda is expected to remain highly concessional.

Credible early relief under this initiative should be a common objective of all creditors to help buttress the debtor countries' reform efforts. Although the World Bank has agreed to provide interim relief using IDA grants, based on the degree of debt burden, we remain concerned that the IMF and other IFIs have not agreed on specific mechanisms to provide interim relief. We urge them to define specific measures for early relief as soon as possible.

MIGA Capital Increase: We welcome the progress that has been made since the last meeting of the Development Committee to strengthen MIGA's finances and its development effectiveness. We also welcome the approval of a $150 million transfer of net income from the World Bank to MIGA, which we voted for, and which was approved by the World Bank Governors on April 6.

There have been good discussions in the MIGA Board on some of the core policy issues necessary for a financially strengthened MIGA to better promote sustainable economic development through private sector investment. Particular progress has been made in incorporating core labor standards in MIGA's operations and adopting stronger environment policies. We look forward to final agreements on these key issues. We urge that concrete progress be made in bringing MIGA and IFC social and environmental standards up to those of the World Bank itself. We are also seeking an improvement in MIGA's information disclosure policies. We are concerned that the effort to create an Inspection Panel at the IFC is considerably behind schedule, which in turn is preventing MIGA from moving forward with the creation of its own Inspection Panel.

My government is reviewing very carefully the recommendation for a $850 million General Capital Increase for MIGA recently approved by the MIGA Board. Thanks to the solid support we have received from MIGA Management and from other MIGA members in seeking a stronger, more effective MIGA, we hope to be in a position to support this capital increase in the Council of Governors, and submit a formal authorization request to our Congress. The U.S. will not be able to agree to a capital increase for MIGA until our concerns have been resolved. Much will depend on further discussions with our fellow MIGA members on the issues I have mentioned.

Development Effectiveness and Improved IFI Cooperation

Implementing the MDB Task Force Report: The MDB Task Force report commissioned by this body several years ago, spoke directly to some of the key issues we are grappling with today in the context of recent events in Asia. In particular, that report gave special emphasis to the importance of coordination among the Multilateral Development Banks. We welcomed the recommendations of the MDB Task Force Report two years ago, and are pleased that the Presidents of the Multilateral Development Banks (MDBs) are meeting semi-annually to discuss key policy issues and that staff also meets periodically. We look forward to a further strengthening of these efforts to improve MDB coordination.

To avoid duplication of effort and to make more effective use of MDB resources and expertise, we need better MDB coordination on country assistance strategies, public expenditure reviews, sector-specific policies, and assessment of country performances. To improve the quality and integrity of MDB lending as well as to set clear guidelines for private sector partners, we would like the banks to develop uniform procurement rules and documents of the highest standard, a common policy to mainstream anticorruption into decisions on assistance, and specific and monitorable performance indicators to evaluate the success of MDB policies and programs. I urge MDB Presidents to develop a process that will intensify current efforts and lead to specific results, including an announcement of a concrete set of accomplishments within the year.

Strategic Compact: Over the past year, the Bank has been proceeding rapidly with implementation of the ambitious agenda of the Strategic Compact. It is improving project quality and devising and enhancing performance indicators to evaluate the effectiveness of its work. It is decentralizing and reducing internal decision making layers. It is intensifying its focus on poverty alleviation through programs for health, education and microfinance and sharpening its ability to respond to financial crises in the wake of developments in Asia. We look forward to full implementation of the Bank's new human resources policy, cost-cutting measures and improved internal procedures. We applaud the effort being undertaken to focus the Bank's activities on areas where it can be most efficient and effective. All of these efforts will support the Bank's commitment to return its budget to pre-Compact levels in real terms at the end of the three-year Compact.

We urge the Bank to use the Strategic Compact to sharpen performance criteria for lending, to improve its own internal governance, and to strengthen its impact on labor, environment and microenterprise issues.

Performance Criteria and Selectivity: Recent Bank research shows that international foreign assistance leads to increased economic growth only in countries with good policy performance while aid in the wrong policy environment can actually be harmful. In addition, the research indicates that institutional capacity and good governance are indispensable to transforming assistance into sustainable economic growth. These are powerful findings, and strongly reinforce our long-held view that the Bank needs to extend assistance selectivity and to identify correctly the criteria for good performance.

Bank Governance: The principles of accountability, participation and transparency also need to be observed more systematically in the Bank's internal process. We are pleased that the Bank is using participatory approaches to ensure that its projects and programs benefit the poor in borrower communities, and urge that this approach be used across the board in the development of its country assistance strategies. A key factor in obtaining the support of affected groups for the Bank's strategy and programs would be publication of the assistance. Disclosure of Bank strategies and policies and the publication of Bank evaluation documents will encourage accountability and improve development effectiveness.

Labor: Over the past six months the Bank has made commendable efforts to advance core labor standards, including rights to associate, organize and bargain collectively, the prohibition of forced or exploitative child labor, and the principle of non-discrimination. We are pleased that President Wolfensohn has played a leadership role in this area and has met with Asian labor leaders to gain their perspective on recent events. In addition, the Bank recently decided to prohibit use of forced and exploitative child labor in MIGA-guaranteed operations. This is an important step forward and one we hope to see adopted throughout the World Bank Group and the MDB system. The debate on these issues has been constructive and healthy and has aired the full spectrum of views. For all of us, progress on the ground will be a continuing effort.

Our bottom line is that improving respect for core labor standards is fully consistent with -- indeed central to -- the mission of the International Financial Institutions. Greater respect for worker rights complements efforts to achieve and maintain long-term economic growth and stability. Conversely, denying core labor standards has a negative impact on the most important productive resource in developing countries -- labor. We call upon the World Bank and the IMF to continue efforts to advance respect for worker rights, including convening a joint conference on worker rights issues. In addition, we urge the World Bank to build on the work begun through its Child Labor paper and work with the ILO on a strategy that will advance a Bank screening mechanism process.

Environment: We are pleased that the donor community has agreed to replenish the Global Environment Facility and to adopt reforms to mainstream the GEF's objectives into the regular operations of the World Bank. But more work needs to be done. Environmental protection should not be a luxury available only to the rich.

As President Wolfensohn has noted, we need a uniform set of environmental standards that apply across the Bank, MIGA and IFC. In addition, implementation of policy commitments should be strengthened, and environmental considerations should be mainstreamed into the work of the Bank Group so that a broad array of projects are tailored to benefit the environment rather than solely to mitigate environmental harm. Public participation in the development of Bank projects and policy should become routine. Related to this, we are concerned by efforts to weaken the Bank's Inspection Panel, which we already believe is not functioning as rigorously as intended. We believe this issue warrants closer attention by Bank members. It is vitally important to reach agreement on an effective inspection process for the entire Bank Group. We intend to pursue this issue further in the IDA-12 negotiations.

Microenterprise Development: We are pleased that the Strategic Compact singled out microenterprise development as an area in need of greater focus by the World Bank. We commend the efforts that have been made thus far to increase the Bank's financial and policy involvement in this area, and urge that the goal of mainstreaming microenterprise into the overall work of the Bank be accelerated.

Conclusion

Since we met in Hong Kong in September, the shared challenges facing the international community and the International Financial Institutions have intensified, particularly in East Asia. These difficulties have reaffirmed the importance of broad-based economic reforms to lock in economic gains and of close coordination among countries in crisis, the International Financial Institutions and other countries that can lend a hand. As we go forward, our job is to take stock of what has worked, what has not and what needs to be improved, and then alter our policies accordingly -- as nations and as participants in the International Financial

Institutions, and more broadly, in the international financial community. These lessons came at a price, particularly to the people of East Asia. We owe it to them and to ourselves to use these lessons to take actions that forestall or mitigate future crises.

-30-

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.
April 17, 1998

CONTACT: Office of Financing
202/219-3350

TREASURY'S 52-WEEK BILL OFFERING

The Treasury will auction approximately $10,000 million of 52-week Treasury bills to refund $15,479 million of publicly held 52-week bills maturing April 30, 1998. This offering will result in a paydown for the Treasury of about $5,475 million. In addition to the maturing 52-week bills, there are $14,862 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 $12,738 million of the maturing bills. These accounts are considered to hold $5,210 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 $6,350 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 $1,270 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.

oOo

Attachment

RR-2377

HIGHLIGHTS OF TREASURY OFFERING OF 52-WEEK BILLS
TO BE ISSUED APRIL 30, 1998

April 17, 1998

<u>Offering Amount</u> .... $10,000 million

<u>Description of Offering</u>:

Term and type of security .. 364-day bill
CUSIP number .... 912795 BW 0
Auction date .... April 23, 1998
Issue date .... April 30, 1998
Maturity date .... April 29, 1999
Original issue date .... April 30, 1998
Maturing amount .... $20,689 million
Minimum bid amount $10,000
Multiples $1,000

<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 three decimals, in increments of .005%, e.g., 7.100%, 7.105%.
(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 $1 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

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
April 20, 1998

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Term:	91-Day Bill
Issue Date:	April 23, 1998
Maturity Date:	July 23, 1998
CUSIP Number:	9127944X9

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate 1/	Price
Low	4.980%	5.114%	98.741
High	4.985%	5.118%	98.740
Average	4.985%	5.118%	98.740

Tenders at the high discount rate were allotted 59%.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 37,054,062	$ 4,250,340
Noncompetitive	1,173,254	1,173,254
PUBLIC SUBTOTAL	38,227,316	5,423,594
Federal Reserve	3,270,500	3,270,500
Foreign Official Inst.		
Refunded Maturing	330,000	330,000
Additional Amounts	0	0
TOTAL	$ 41,827,816	$ 9,024,094

1/ Equivalent coupon-issue yield.

RR-2378

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
April 20, 1998

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Term:	182-Day Bill
Issue Date:	April 23, 1998
Maturity Date:	October 22, 1998
CUSIP Number:	912795AN1

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate 1/	Price
Low	5.050%	5.254%	97.447
High	5.060%	5.265%	97.442
Average	5.060%	5.265%	97.442

Tenders at the high discount rate were allotted 64%.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 28,671,210	$ 4,128,766
Noncompetitive	1,004,757	1,004,757
PUBLIC SUBTOTAL	29,675,967	5,133,523
Federal Reserve	3,480,000	3,480,000
Foreign Official Inst.		
Refunded Maturing	2,130,000	2,130,000
Additional Amounts	0	0
TOTAL	$ 35,285,967	$ 10,743,523

1/ Equivalent coupon-issue yield.

RR-2379

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

EMBARGOED UNTIL 10 A.M. EDT
Text as Prepared for Delivery
April 21, 1998

TREASURY ASSISTANT SECRETARY (INTERNATIONAL AFFAIRS)
TIMOTHY F. GEITHNER
HOUSE BANKING SUBCOMMITTEE ON GENERAL
OVERSIGHT AND INVESTIGATIONS

I welcome this opportunity to testify before the Subcommittee to review U.S. participation in the International Monetary Fund (IMF). Joining me is Karin Lissakers, U.S. Executive Director of the IMF.

This hearing takes place in the context of three important developments. First, the world is still in the early stages of responding to one of the worst international financial crises in the post-war period, a crisis that poses serious risks to the interests of American companies, workers, and farmers. Second, the Congress is considering vital legislation to strengthen the IMF's financial base to ensure it has the resources necessary to deal with any intensification or spread of the current crisis, as well as future crises that could threaten American prosperity. Finally, we are leading a major international effort to strengthen the architecture of the global financial system, which will include reforms to the IMF, to enhance our capability to prevent and resolve financial crises.

These issues have been the subject of testimony by the Secretary of the Treasury, Chairman Greenspan, and senior Treasury officials at Congressional hearings on nine occasions over the past several months. In this statement today, I will focus on a series of more detailed questions you raised in your letters to Secretary Rubin and Karin Lissakers, including:

The governance of the IMF, our position in the institution, and the role played by our Executive Director.

RR-2380

- The ways in which we seek to advance policy initiatives in the institution, and in this context, our successes and failures in advancing Congressionally mandated policies in the four specific areas you highlighted in advance of the hearing:

    - worker rights,
    - the role of the private sector,
    - human rights, and
    - military spending.

- The financial structure of the IMF.

- Improving transparency in the IMF.

- Performance measures for the IMF.

We have both, as you know, provided extensive material to the Committee in advance of this hearing. We hope this statement is responsive to the questions raised in your letters.

The International Monetary Fund

The IMF was created more than 50 years ago in the wake of a world depression and world war caused in part by a severe global economic disruption. Its mission is to promote the expansion of world trade and high levels of employment and growth. For this purpose, the IMF promotes the adoption of pro-growth, market-oriented economic policies through its surveillance of member economies and by providing conditional financing to enable countries to correct balance-of-payments problems without recourse to measures destructive of national and international prosperity.

The world economy has changed dramatically since the IMF was founded. The fixed exchange rate system established at Bretton Woods has given way to more diverse arrangements, from freely floating currencies to pegged rates and monetary unions. The integration of domestic capital markets into a global financial marketplace has resulted in an expansion of international capital flows to levels which dwarf the payments for goods and services that were the IMF'S original focus.

While the IMF's core mission remains the same, the institution has had to adapt. The new dimensions of today's financial crises require the IMF to complement its traditional emphasis on macroeconomic measures -- reducing fiscal deficits and avoiding inflationary monetary policies -- with consideration of broader structural and institutional issues that are critical to confidence and market-based responses to crises. IMF surveillance and program conditionality now often address the functioning of domestic markets, the soundness of banking systems, social safety nets and governance concerns.

New instruments have been developed. Within the IMF, the Extended Financing Facility was broadened to encompass the structural reforms necessary for Russia, the other FSU states and Eastern Europe to successfully make the transition from controlled to market-oriented economies. The ESAF and HIPC initiatives were undertaken to meet the special needs of the IMF's poorest members. The Supplemental Reserve Facility was created to encourage an early return of borrowers to private markets through loans which carry higher charges and shorter maturities. The Emergency Financing Mechanism was put in place to expedite the negotiation and implementation of IMF support in crisis situations. The New Arrangements to Borrow (NAB) were developed to provide an expanded backstop to IMF resources to deal with systemic threats.

The pace of change in global finance has accelerated in recent years. With this change has come tremendous benefits here in the United States through increased exports, more high-paying jobs, higher standards of living, and lower inflation. The huge increases in private capital flows to developing countries have, among other things, helped finance a greater increase in imports from industrialized countries, including our own. Developing countries from Latin America to Asia have also benefited greatly, as increased capital flows financed greater investment and contributed substantially to the high rates of growth in such countries, promoting higher standards of living and lifting millions out of poverty.

With these opportunities, however, have also come challenges. The Asian crisis has demonstrated that weak financial sectors and other structural problems in emerging economies and inadequate risk assessment by international creditors and investors can combine to have significant impact on countries around the globe. The crisis has also highlighted the need for further improvements to make the system more open, transparent and accountable, and for the private sector to play a greater role in preventing and resolving crises. The IMF, as the principal cooperative monetary institution for the world economy, must be in the forefront of that effort.

Let me therefore begin by describing how the IMF operates and how U.S. policy in the Fund is developed and implemented.

The Governing Structure of the IMF

The Board of Governors is the highest decision-making body of the Fund and consists of one Governor and one Alternate Governor appointed by each of its 182 member countries. The Secretary of the Treasury is the U.S. Governor and the Chairman of the Federal Reserve Board serves as the Alternate. Both are appointed to these positions by the President and confirmed by the Senate.

While all powers of the IMF are vested in the Board of Governors, authority for day-to-day operations has been delegated to the Executive Board, except for certain specific powers which are reserved for the Governors, including decisions on admission and expulsion of members, quotas, SDR allocations, and amendments of the Articles of Agreement. The Board of Governors meets annually although decisions can be and routinely are taken without a formal meeting. The Interim Committee is a ministerial-level group which advises and reports to the Board of Governors on the functioning of the international monetary system and IMF-related issues. The composition of the Interim Committee reflects that of the Executive Board, with the Treasury Secretary representing the United States. The Committee currently meets twice annually but can be convened more frequently.

The Executive Board is currently composed of 24 Executive Directors appointed or elected by the membership with responsibility for the regular operations of the institution. The U.S. Executive Director is appointed by the President and confirmed by the Senate. Her office also includes an Alternate Director, also appointed by the President and Senate-confirmed, an economic advisor, three technical assistants, and two administrative assistants.

The Executive Board meets in continuous session, with formal meetings scheduled 3-4 times a week. During calendar year 1997, the Executive Board met in 166 sessions for a total of 635 hours, of which more than half related to country issues, primarily surveillance and use of IMF resources; one-third involved policy issues, including multilateral surveillance of the world economy and financial markets, the ESAF/HIPC initiatives, quotas, and capital account amendment; and the remainder was devoted to administrative matters including budget, overall staffing levels and compensation issues.

The third leg of the governing structure is management and staff. The IMF Managing Director is chosen by the Executive Board and serves as Chairman of the Board and Chief Operating Officer of the Fund. The Managing Director is assisted by three Deputy Managing Directors, each with responsibilities for particular areas of the Fund's activities. The IMF staff currently totals about 2,600, including about 1,000 economists, from over 100 countries, and is organized into area, functional and support departments. The IMF has over 60 resident representatives stationed in member countries. The number of authorized staff increased in the early part of the decade when the IMF membership expanded to include Eastern European countries, Russia and the other FSU states, but has remained fairly constant in recent years.

The salaries of Fund staff are set and adjusted annually on the basis of a comparison with the salaries of employees performing comparable work and with equivalent responsibilities in the U.S. public and private sectors. The resulting salary level is also reviewed for international competitiveness in order to achieve the wide geographical distribution of staff mandated in the IMF Articles of Agreement.

Most countries in the world impose tax on the worldwide income of individuals on a residence, rather than citizenship, basis. Thus, non-U.S. nationals employed by the Fund outside of their home countries generally do not pay home country income tax on their Fund incomes. However, the United States taxes its citizens regardless of where they are resident; U.S. staff of the Fund are taxed by the United States on their Fund income regardless of where they are located. Arrangements have been made to reimburse employees for income taxes paid to their home countries to put them on an equal footing with staff who do not have to pay home country tax. Of IMF tax reimbursements, 99.5% go to U.S. staff. These reimbursements represent a transfer from the IMF to the U.S. Treasury. In the absence of tax reimbursement, the actual after-tax Fund income of U.S. staff would fall well below both the pay of other IMF staff (that is not taxed) and the after-tax pay of employees in the U.S. public and private sectors. In such circumstances, it would be very difficult, if not impossible, for the Fund to recruit or retain well qualified U.S. staff.

In a 1995 report, the GAO reviewed the IMF compensation system and concluded that it was consistent with the basic objective of providing competitive salaries and attracting high quality international staff. While agreeing with the thrust of the GAO report, the Administration has worked to restrain the level of compensation allowed within the agreed formula and has called for a bottom-up review to consider appropriate reforms. The U.S. Director, at the direction of the Treasury Department, has also been in the forefront of efforts to pursue budget consolidation following the period of increased spending due to the expansion of IMF membership. As a result, the number of authorized staff has declined slightly and the increase in administrative expenditures has been less than the rate of inflation over the past three to four years.

Executive Board Procedures

The agenda for an Executive Board meeting is determined by management, in consultation with the Board, and based on a rolling four-week tentative schedule which is subject to change. The Board discussions are usually based on staff papers which Board procedures require be circulated 2-3 weeks prior to a meeting although provision is made for waiving this requirement under certain circumstances. Under the IMF emergency financing procedures, expedited consideration in as little as 3-4 days can occur.

The discussions in the Executive Board are normally informal with Directors usually making opening remarks and then engaging in debate with each other and staff. Representing the largest, most influential member, the U.S. representatives speak on virtually every issue coming before the Board.

At the conclusion of the meeting, the Chairman normally summarizes the discussion and takes a sense of the meeting on issues requiring decision, including loans, program reviews and policy matters. While a Director may request a formal vote, an effort is usually made to reach a consensus on key issues with votes taken only in the rare occasions when the necessary majority may be in doubt. However, even in situations where a clear majority is in favor of a decision, the United States has at times asked that the record indicate its opposition to a particular course of action. As the Committee requested, a list of all Executive Board documents and decisions and votes by the USED is being submitted for the record.

The voting power of each member is based on its subscription to IMF quota resources, with each member receiving 250 basic votes plus an additional vote for each SDR 100,000 of quota. As the member with the largest quota, the U.S. has the highest voting power, now about 18 percent of the total, which provides us with a veto over major policy issues such as an increase in quotas and amendment of the Articles of Agreement. While this voting power is nearly triple that of the next largest countries, Japan and Germany, it still falls well short of the majority vote needed for most IMF decisions.

Consequently, the U.S. must engage in coalition building to obtain the necessary support for its views on most issues. This is accomplished through a variety of channels including frequent contacts with Management, staff and the Offices of Executive Directors, either individually or in groups. These efforts are often supplemented by contacts with the home governments of member countries, including within the G-7 framework, other multilateral fora and bilaterally.

As the representative of the U.S. in the IMF, the Executive Director reports directly to the senior levels of the Treasury, particularly the Under and Assistant Secretaries for International Affairs, and works closely with the Treasury Department in the development and implementing of U.S. policies. The Executive Director participates regularly in meetings with Treasury officials where IMF issues are considered and receives guidance on the items being considered by the Executive Board, including written instructions to implement legislation and congressional mandates. Regular reports are provided by the Director on Executive Board deliberations and additional guidance sought as issues evolve. The Executive Director also participates in meetings between Treasury and foreign officials when IMF issues are being considered and is a senior member of the U.S. delegation to meetings of the IMF Board of Governors and Interim Committee.

In addition, members of the Office of the USED maintain close liaison with such U.S. Government entities as the Treasury Department, Federal Reserve Board, State Department, NEC and NSC as well as with U.S. representatives in the World Bank and other MDBs. Members of the office also meet with congressional staff, academics, business and labor groups, NGOs and others that have a particular interest in IMF issues.

Let me turn now to the issues raised by the Committee to indicate how this process is used to advance U.S. policy objectives.

Congressional Mandates

On a number of occasions over the past several decades, the Congress has sought to increase the profile of certain policy objectives through legislation requiring that the U.S. seek specific changes in IMF policies. Since 1977, these legislative mandates have generally taken the form of requiring the Secretary of the Treasury to instruct the U.S. Executive Director to use the voice and vote of the United States to seek the adoption of measures that would advance the attainment of the policy goal. In explaining the use of the voice and vote formulation in 1977, the House Banking Committee said, among other things, that the formulation concentrates U.S. policy on finding effective means of furthering our goals instead of merely putting a negative vote on specific loans. However, in some cases, the voice and vote requirement is cast in terms of opposing a particular action, which the U.S. Executive Director can do by either abstaining or voting against.

Most IMF members and Fund Management and staff view the institution primarily in terms of the monetary mandate contained in the Articles of Agreement in which macroeconomic and structural policies are designed to correct balance of payments problems. They tend to view the provisions in the Articles which require the Fund to "respect the domestic social and political policies of members" and to "pay due regard to the circumstances of members" as limiting the Fund's competence to economic issues directly related to the balance of payments. In these circumstances, we have found that the most effective strategy for garnering the necessary support to modify Fund policies is through careful persuasion based on arguments that are consistent with the IMF's charter.

This approach has involved, for example, encouraging IMF staff to undertake research on the economic aspects of an issue, including the potential impact on the functioning of the economy, the members' ability to implement economic policies, or the consequences for international trade, investment and the balance of payments. We work to engage IMF Management on the issue and encourage the Managing Director to address the issue in public fora and international meetings. We raise the issue with other Executive Directors, initially through informal contacts, and then in Board seminars and retreats. We work to obtain the support of other member governments through the G-7, other multilateral groups, and bilaterally. And we work in other fora and bilaterally to pursue the issue in an effort to generally raise the profile of the issue. When we are successful, recognition of the issue becomes widespread and accepted, thus allowing us to raise it in IMF policy and country discussions without triggering counterproductive reactions and a hardening of positions. Ultimately, then, Fund policies can be modified, guidance to IMF staff adapted accordingly, and IMF-supported programs adjusted to include the appropriate conditionality.

This approach requires patience and persistence over an extended period. The views of other countries may be strongly held, particularly when the issue is perceived to affect a vital national interest. The IMF's rules in some cases may require high majorities to change policies and, in some instances, the consent of an individual country may be required before a general policy can be implemented in a specific case.

Here is a more detailed report on our experience to date pursuing four specific issues you raise in your letter: worker rights, role of the private sector, human rights, and military spending.

o *Worker rights*: Since the passage of the Sanders-Frank amendment in 1994, the United States has worked actively to encourage the IMF, World Bank and other MDBs to pay greater attention to labor issues, including the adoption of policies to encourage borrowing countries to guarantee internationally recognized worker rights. I would also note that Treasury views the provisions, contained in HR 3114, as passed by the full Banking Committee by a margin of 40-9, regarding labor rights and IMF coordination with the IMF on these issues, as a constructive means to enhance Treasury's ability to advance more appropriately this concern within the IMF. Consistent with Congress's 1994 action, considerable progress has been made in the World Bank where, for example, the importance of improving labor standards is formally acknowledged by the institution, a comprehensive policy to eliminate exploitative child labor has been adopted, and MIGA is prohibited from extending guarantees for programs involving forced labor and exploitative child labor.

Progress admittedly has been slower in the IMF. The initial reaction of most IMF members has been that this is an issue more appropriately addressed in the MDBs and ILO rather than the IMF. Consequently, our initial efforts have focused on encouraging the IMF to develop a stronger working relationship with the ILO; pressing Management and staff to incorporate core labor standards into program design and to include representatives from organized labor in program discussions; and raising worker rights issues in specific country reviews where the United States has particular concerns.

This effort is beginning to bear fruit although much work remains to be done. Notably, at the February 21, 1998, G-7 meeting in London the finance ministers and central bank governors recognized the importance of "the International Financial Institutions' support for the work of the ILO in promoting core labour standards." Furthermore, the 1998 G-8 Conference on Growth, Employability and Inclusion, expressed support for "the global progress towards the implementation of internationally recognized core labour standards". These statements are important steps in the consensus-building process both within and outside of the IMF.

The IMF and ILO are developing a close working relationship at all levels, including meetings of senior officials, joint sponsorship of conferences, attendance at each institution's annual meetings, and enhanced staff cooperation in specific country cases. Moreover, as part of the effort to promote country ownership of IMF-supported programs, the Fund is reaching out to a wider range of representatives from civil society, including labor unions, and urging governments to consult more closely with labor groups in the formulation and implementation of economic policies. The "tripartite" process of program negotiation and implementation adopted in the recent Korea arrangement is a model that could be used in other cases. The USED has also raised worker rights issues in specific country cases including Ethiopia (child labor in the informal sector), Pakistan (child and bonded labor), Morocco (core labor standards as a means of improving labor market flexibility), and Indonesia (freedom of association).

Our efforts are continuing. The IMF and the World Bank, together with the ILO, are holding a conference in Bangkok this week on the implications of Asian crisis for workers in the region. In several recent speeches, the IMF Managing Director highlighted the need to adapt Fund policies to place greater emphasis on labor issues, including core labor rights.

o *Role of private creditors in crisis resolution:* Fifteen years ago, in the midst of the Latin America debt crisis, the Congress directed the Secretary of the Treasury to instruct the U.S. Executive Director to oppose and vote against any IMF financing which in his or her judgment is to be used principally for repaying imprudent bank loans to a member country and to encourage the rescheduling of bank loans. At U.S. urging, the Fund adopted during the 1980s a variety of measures to facilitate the orderly resolution of the debt crises, including policies requiring assurance of adequate private external financing in support of members' adjustment efforts, IMF lending into arrears to ensure that reluctant private creditors to sovereign borrowers could not derail a country's adjustment efforts, and IMF support for a menu of options developed for restructuring a country's private external debt (the Brady Plan). Between 1987 and March 1997, 31 debtor countries had more than $180 billion in commercial bank debt restructured, and the original claims of the banks were reduced by $83 billion.

The Asian crisis has demonstrated again the importance of finding more effective mechanisms for sharing with the private sector the burden of managing financial crises. In a world in which trillions flow through international markets every day, there is simply not going to be enough official financing to meet the crises that could take place. Moreover, official financing should not absolve private investors from the consequences of excessive risk-taking and thus create the "moral hazard" that could plant the seeds of future crises.

This issue was a central topic at last week's international meetings, including the G-7, the Interim Committee and the special meeting of finance ministers and central bank governors of 22 countries. In a speech last week, Secretary Rubin outlined U.S. views and, in his Interim Committee statement, suggested some steps that the IMF could take now while more fundamental reforms are being examined. Possible mechanisms could include the promotion of new, more flexible forms of debt agreements and indentures which could provide a framework for direct negotiations between creditors and debtors. The IMF should also explore lending into arrears -- in other words, the IMF would continue to provide financing to countries even when those countries may be behind on the debt payments to some private creditors -- to create a situation in which debtors and creditors work things out themselves.

o *Human rights*: The United States pursues the advancement of human rights through a variety of diplomatic channels and international institutions. As provided in legislation, the USED has opposed IMF financing to countries about which the United States has human rights concerns or countries harboring war criminals.

Our ability to pursue this objective in the IMF is constrained in part by the fact that most countries about which the U.S. has human rights concerns do not borrow from the IMF. At present, for example, the only country within that category which receives IMF financing is Mauritania. The USED's Office has continuously opposed IMF financing for Mauritania since 1992. Similarly, with respect to our war criminals concerns, the U.S. opposed an IMF loan to Croatia that was approved by the Board, successfully postponed subsequent disbursements of the approved loan and only agreed to a resumption of disbursements after being satisfied that Croatia had changed its policies.

o *Military spending*: The issue of military spending is another area where U.S. efforts have had to overcome entrenched views, particularly as most members consider that it involves sensitive national security concerns. However, we have been able to make progress by placing the issue within the broader governance framework and the need to improve the quality and composition of fiscal adjustment by reducing unproductive spending while ensuring adequate basic investment in infrastructure and human resources, and the importance of enhancing the transparency of fiscal policy by reducing off-budget transactions. We have encouraged Fund staff to undertake studies of the economic effects of reducing global military spending. The Managing Director has also taken an active role in promoting reduced military spending and discouraging arms races among developing countries, including by urging developed countries to restrain their military sales programs.

As a result of these efforts, the Fund is paying increased attention to military spending issues, including in the context of IMF programs. For example, the IMF review of Peru's extended arrangement was delayed by staff concern regarding the substantial acquisition of fighter planes and whether the financing of the purchase was consistent with program conditions. In Pakistan, the IMF has continued to insist that the level of military-related external debt be included in the overall debt limit as a means of enforcing budgetary transparency in military spending and restricting such borrowing. In Romania, the Fund pressed for inclusion of military spending in the budget in order to force the authorities to be transparent and to consider the impact of military spending on other priorities in the context of tight budget constraints.

The Financial Structure of the IMF

The financial structure of the IMF is similar to that of a credit union. All members contribute to the resources of the IMF, and each member is entitled to obtain financing based on agreed uniform criteria. A member that provides resources used in extending financing to another country is generally paid interest on its creditor position. A country receiving financing pays interest charges on its loan. The rates of remuneration and charge are based on the Special Drawing Right (SDR) interest rate, which is a weighted average of the market interest rates on short-term government securities in the U.S., U.K., Germany, Japan and France. The SDR interest rate is a floating rate which changes weekly with fluctuations in the interest rate on the component securities. Consequently, the rates of remuneration and charge are adjusted in response to changes in these market rates.

The IMF Articles of Agreement require that the rate of remuneration paid creditors must be between 80 percent and 100 percent of the SDR interest rate. Pursuant to legislation enacted in 1983, the U.S. Director successfully obtained a revision of IMF policies which raised the rate of remuneration to 100 percent of the SDR rate. A portion of this remuneration is deferred under arrangements whereby creditors and debtors finance the financial burden to the IMF arising from interest arrears on IMF obligations and for additions to the Fund's precautionary balances. The basic rate of remuneration for the week of April 20, 1998 was 4.24 percent.

As requested by the Committee, we have provided a table indicating the net benefit or cost of U.S. participation in the IMF.

The basic rate of charge paid by borrowers is set at a level relative to the SDR interest rate which is sufficient to cover the cost of financing to the IMF (primarily remuneration paid creditors) and to generate sufficient income to finance agreed increases in the IMF's reserves, and is adjusted upward to pay the borrowers' share of the burden of deferred charges and additions to the IMF's precautionary balances. Like remuneration, the rate of charge fluctuates with changes in the SDR interest rate and thus the underlying market rates. The basic rate of charge for the week of April 20, 1998 was 4.54 percent or 107 percent of the SDR rate.

Last year, the IMF adopted a U.S. proposal for a Supplemental Reserve Facility (SRF) under which members obtaining large amounts of IMF financing to deal with emergency situations pay a surcharge of 300-500 basis points over the regular rate of charge. The surcharge is intended to encourage such borrowers to repay IMF loans as soon as possible after access to private markets is restored. A portion of the IMF loan to Korea was financed under the SRF, and we expect that there will be increased recourse to the facility in the future.

The Executive Board reviews regularly the policy on charges and remuneration and has considered the possibility of instituting a risk premium. Changes in IMF charges require a 70 percent majority vote, and most Directors, both debtors and creditors, have opposed introducing differential risk premia. The IMF is a cooperative institution established on the principle that member countries share a fundamental interest in providing mutual support to each other in order to prevent or contain disruptive financial crises and preserve the stability of the international financial system. A non-discriminatory pricing policy is fully consistent with the basic tenets and mission of such an institution. As an international financial institution, the IMF enjoys what amounts to preferred creditor status, seniority relative to other creditors and a superior capacity to obtain repayment. This tends to equalize the risk of all IMF loans. No country has ever defaulted on its IMF obligations.

Transparency

One of the most prevalent concerns about the IMF is that it discloses inadequate information about the details of its lending programs and the contents of its policy advice to its members. In general, we share these concerns. We strongly believe that increased transparency by governments and the international financial institutions is essential for the effective functioning of the global financial markets. We have been at the forefront of efforts to promote greater openness and accountability, successfully gaining support for a number of changes in IMF policies.

In 1996, the IMF introduced the Special Data Dissemination Standard (SDDS) to improve the information collection and publication practices of countries accessing international capital markets. The Fund is also providing more information on its own activities, largely in response to U.S. efforts, including the voluntary release of Press Information Notices (PINs) summarizing IMF views at the conclusion of Article IV consultations -- PINs have been issued for 72 countries since its creation in May 1997 -- publication of the Policy Framework Papers describing country economic strategies which serve as the basis for ESAF and IDA financing, and issuance of IMF background papers on economic developments in individual countries. Letters of Intent describing the policy commitments which countries undertake as a condition for receiving IMF financing are being increasingly released by the country concerned. The Letters of Intent for IMF programs with Korea, Thailand, and Indonesia have all been made public and are available on the IMF web site.

While the progress has been substantial, there is clearly room for improvement. At the Interim Committee meeting, Secretary Rubin presented specific proposals to:

- increase the participation in and content and usefulness of the SDDS;
- create a presumption that all members would issue PINs;
- require publication of Letters of Intent;
- permit release of staff reports on Article IV consultations; and
- allow more timely access to IMF archival material, release of IMF reports to the Interim Committee and staff papers on key policy issues, and publication of more summaries of Executive Board meetings.

Beyond these steps there are practical limitations and legitimate concerns regarding how far the IMF could and should go in releasing information. The Fund's effectiveness as a confidential policy advisor to member governments requires that consultations be frank, candid, and based on mutual confidence. Moreover, the Articles of Agreement permit a country the right to prohibit publication of information which it provides the Fund in confidence. Finally, we do not believe the IMF should substitute for private creditors and investors reaching their own decisions about the risk of lending or investing in a country. Progress will continue, albeit at a slower pace than many would consider optimal.

Performance Measures

The Committee has asked us to identify possible concrete performance measures by which the Congress could judge the effectiveness of the IMF. This is a particularly difficult task in an institution such as the IMF. The issues which the IMF seeks to address are not fully in the institution's control but depend importantly on decisions and actions by member governments and the markets. Finally, the tools which the IMF relies upon are inherently imprecise and subject to conflicting interpretation and judgment.

In this context, any assessment of the IMF's performance will necessarily be judgmental and qualitative. There are a variety of measures that the Congress might consider:

First, the Congress could evaluate the extent to which the IMF meets the general purposes contained in its Articles of Agreement to promote trade, growth, employment and a stable international monetary system. It is both possible and appropriate to assess whether the policies and programs the IMF advances contribute to these objectives, although it is important to recognize that the IMF does not and cannot bring about by its actions alone a positive change in any of these areas.

Second, the Congress could evaluate the extent to which the United States succeeds in advancing specific policy issues, such as advancing core labor standards or improving transparency within the IMF. Here it is clearly possible to measure performance against a specific list of objectives.

Third, the Congress could examine the more specific questions of how countries with IMF programs perform, whether they meet the conditions in the programs, and whether the policies pursued with IMF support are effective, for example, in strengthening growth and employment.

The legislation now being considered by the Congress contain a number of different types of reporting requirements that are designed in part with these objectives in mind. We would be pleased to work with you and other interested members of Congress to explore how best to identify performance measures that would provide a useful picture of the effectiveness of the institution.

Conclusion

The IMF is an imperfect institution and there is room for improvement. However, a reasonable reading of the record of the past 50 years would indicate that the IMF has:

- o contributed to a period of unprecedented growth in the world economy by promoting pro-growth, market-oriented reform, and by reducing barriers to the flow of international trade, investment and capital;

- advanced U.S. interests in promoting a market-based, global economy that is best suited to the pursuit of the spread of democratic ideals; and

- helped countries deal with financial problems in a manner that reduces the risk of deep and prolonged economic contraction and competitive exchange rate policies that could threaten global prosperity and stability.

Our view, Mr. Chairman, is that the United States and the world are significantly better off with the IMF than they would have been without it. Our efforts should be focused on reforming the IMF to make it work better. The legislation now before the Congress to replenish the IMF's resources is critical, especially as the Fund's current liquidity has fallen to levels which threaten its operational capacity to deal with any spread or intensification of the current crisis and to deal with further crises that could threaten U.S. interests. We are committed to supporting reforms in the IMF and in the architecture of the international financial system as a whole that will help advance U.S. interests and best respond to future challenges to U.S. interests. We look forward to working with the Congress toward these objectives.

-30-

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
April 21, 1998

CONTACT: Michelle Lynn Bonner
(202) 622-2960

TREASURY DEPARTMENT SIGNS PARTNERSHIP AGREEMENT WITH NATIONAL ASSOCIATION OF HISPANIC FEDERAL EXECUTIVES

Treasury Secretary Robert E. Rubin today signed a partnership agreement with the National Association of Hispanic Federal Executives (NAHFE) that is designed to provide a framework for Treasury and NAHFE to work together on recruitment, training, professional development, retention and involvement of Hispanic Americans in Treasury's workforce and programs.

"This agreement is an important commitment from the Treasury Department to working closely with the Hispanic community, in its effort to attract and retain the highest quality employees for the Treasury Department," Secretary Rubin said.

Under the agreement, the Treasury Department will provide NAHFE with information on employment and procurement opportunities, encourage Treasury Bureaus to participate in events designed to recruit and promote Hispanic Americans in the federal workforce, and receive input from NAHFE on ways to increase the involvement of Hispanic Americans in Treasury programs and activities. NAHFE, in turn, will assist Treasury in disseminating information to the Hispanic American community.

"We expect this agreement to be the first in a series of similar agreements with other organizations," said Nancy Killefer, Assistant Secretary for Management and Chief Financial Officer of the Treasury Department. "In keeping with efforts Administration wide, the Treasury Department is working to expand the community from which it recruits employees."

A copy of the partnership agreement and photographs from the signing are available at *http://www.ustreas.gov/press/.*

-30-

RR-2381

PARTNERSHIP AGREEMENT
BETWEEN THE NATIONAL ASSOCIATION OF HISPANIC FEDERAL EXECUTIVES AND THE DEPARTMENT OF THE TREASURY

I. PARTIES

The parties to this Partnership Agreement ("PA") are the National Association of Hispanic Federal Executives ("NAHFE") and the Department of Treasury ("Treasury").

II. BACKGROUND

NAHFE is a § 501(c)(6) private, nonprofit and nonpartisan professional organization of Federal supervisors, managers, and executives. NAHFE was incorporated in Washington, D.C. in 1984. Membership is open to all federal civilian and military personnel at the GS-12 (equivalent military rank is major) and above grade levels, including personnel at the Senior Executive Service level.

The objectives of NAHFE are to:

- promote the federal government as an excellent source of opportunity and service
- recruit diverse qualified candidates for senior policy positions in federal civil service
- provide career development training to federal supervisors, managers, and executives for enhanced job effectiveness and career progression
- provide intermediary services between the government and Hispanic American communities.

III. PURPOSE

The purpose of this PA is to provide the framework for a cooperative, mutually beneficial working relationship between NAHFE and Treasury in recruitment, training, professional development, retention, and involvement of Hispanic Americans in the Treasury workforce and programs.

IV. OBJECTIVE AND RESPONSIBILITIES

The objective of this PA is to coordinate and facilitate activities that are responsive to the needs of the parties, within the limits set forth herein.

A. The responsibilities of NAHFE are to:

1. Provide, upon request from Treasury, information, counsel, support, and assistance regarding policies and programs which further the purpose and objective of this PA.

2. Provide Treasury with input on ways to increase involvement of Hispanic Americans in educational programs as outlined in Executive Order No.12900, Educational Excellence for Hispanic Americans.

3. Provide Treasury, upon request, NAHFE speakers on such topics as diversity, Hispanic issues, affirmative action programs, and contemporary issues affecting Hispanic Americans.

4. Provide Treasury with access to the NAHFE membership database for recruitment of Hispanic Americans.

5. Provide Treasury with access to the NAHFE home page on the Internet World Wide Web for use in disseminating relevant information to the Hispanic American community.

6. Provide Treasury with information regarding procedures for advertising in **The Hispanic Executive**, the official newsletter of NAHFE.

7. Provide Treasury with information relating to participation in the NAHFE Annual Executive Leadership Development and Diversity Training and Recruitment Conference in November and seminars held in the Southwest.

B. The responsibilities of the Department of the Treasury are to:

1. Encourage the use of Intergovernmental Personnel Act (IPA) and other similar programs for the professional development of Hispanic Americans.

2. Receive input from NAHFE on ways to increase Hispanic American involvement in Treasury programs and activities.

3. Provide NAHFE, upon request, copies of public reports which support this PA's objectives and are submitted to the Office of Personnel Management, the White House Initiative on Educational Excellence for Hispanic

Americans, Equal Employment Opportunity Commission, or the Merit System Protection Board.

4. Include NAHFE on existing mailing lists for vacancy announcements for GS-13 to GS-15 and SES positions.

5. Include NAHFE on existing mailing lists for information on Treasury procurement opportunities.

6. Provide NAHFE with information regarding procedures for obtaining surplus property and computer equipment.

7. Encourage Treasury bureaus to participate in events designed to recruit and promote Hispanic Americans in the federal workplace: for example, the NAHFE Annual Executive Leadership Development and Diversity Training and recruitment Conference in November and seminars in the Southwest.

V. IMPLEMENTATION PLAN

Each party will designate an individual to serve as a liaison and point of contact in implementing this PA. The parties' representatives will develop recommendations on ways in which this PA can best serve the parties' interests within 60 days from the effective date of this PA.

VI. FUNDING

Nothing herein will be construed as obligating Treasury or NAHFE to expend any funds to achieve the purposes and objectives of this PA.

VII. AMENDMENTS AND TERMINATION

This PA may be amended or terminated at any time by written notice of either party.

VIII. AUTHORITY

This PA is entered into pursuant to 5 CFR Part 251.

IX. EFFECTIVE DATE

The Partnership Agreement will become effective upon signature of the parties.

-30-

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.
April 21, 1998

CONTACT: Office of Financing
202/219-3350

TREASURY'S WEEKLY BILL OFFERING

The Treasury will auction two series of Treasury bills totaling approximately $13,000 million, to be issued April 30, 1998. This offering will result in a paydown for the Treasury of about $1,850 million, as the maturing publicly held 13-week and 26-week bills are outstanding in the amount of $14,862 million. In addition to the maturing 13-week and 26-week bills, there are $15,479 million of maturing publicly held 52-week bills. The disposition of this latter amount was announced last week.

In addition to the public holdings, Federal Reserve Banks for their own accounts hold $12,738 million of the maturing bills. These accounts are considered to hold $7,528 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 $5,733 million of the 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. Foreign and international monetary authorities are considered to hold $4,463 million of the original 13-week and 26-week issues.

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

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

oOo

RR-2382

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

HIGHLIGHTS OF TREASURY OFFERINGS OF WEEKLY BILLS
TO BE ISSUED APRIL 30, 1998

April 21, 1998

Offering Amount	$5,750 million	$7,250 million
Description of Offering:		
Term and type of security	91-day bill	182-day bill
CUSIP number	912795 AD 3	912795 AP 6
Auction date	April 27, 1998	April 27, 1998
Issue date	April 30, 1998	April 30, 1998
Maturity date	July 30, 1998	October 29, 1998
Original issue date	January 29, 1998	April 30, 1998
Currently outstanding	$10,332 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 three decimals in increments of .005%, e.g., 7.100%, 7.105%.
(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 $1 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

April 21, 1998

The Honorable Trent Lott
Majority Leader
United States Senate
Washington, DC 20510

Dear Mr. Leader:

We write to express our strong opposition to the proposed expansion of the Education IRAs contained in H.R. 2646 which the Senate will soon consider. Last summer, when the Senate passed a similar proposal relating to Education IRAs, the President stated that he would veto the legislation that contained it. H.R. 2646 raises concerns similar to those raised by last year's Senate bill and by the bill passed by the House last fall. If H.R. 2646 were to pass the Congress, the President made clear yesterday that he would veto it.

Every American child deserves a high quality elementary and secondary education. We believe that targeting our limited Federal resources to build stronger public schools will help ensure all our children receive the education they need to be productive citizens. H.R. 2646, however, diverts needed attention and resources away from our public schools.

The expanded Education IRAs would disproportionately benefit the most affluent families and provide little benefit to lower and middle-income families. Additionally, given the expansion of tax-preferred savings vehicles in last year's bill, we believe that further increasing the contribution limits for Education IRAs will not generate much additional savings and would, instead, reward families, particularly those with significant means, for what they would otherwise do.

We are also concerned that the expansion of Education IRAs would create significant compliance problems. The legislation allows tax-free withdrawals from Education IRAs for, among other things, tuition, fees, tutoring, books, supplies and equipment expenses incurred in connection with the child's enrollment or attendance at a public, private or religious school. Withdrawals are also tax-free if used for room and board, uniforms, transportation or supplementary items or services required or provided by the school. Distinguishing between an appropriately tax-free withdrawal and one that should be subject to tax would lead to significant additional recordkeeping burdens for families.

We therefore strongly urge the Senate not to approve this legislation.

Sincerely,

Robert E. Rubin
Robert E. Rubin
Secretary of the Treasury

Dick Riley
Richard W. Riley
Secretary of Education

RR-2383

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

Remarks as Prepared for Delivery
April 21, 1998

TREASURY SECRETARY ROBERT E. RUBIN
CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES

It is a pleasure to speak to a group that is committed to Africa's future, a group that understands Africa's potential and its challenges. Today, I want to offer a few suggestions about one of Africa's greatest challenges: development of financial sectors, including banking and capital markets, and integration into the international financial markets, all of which is key to attracting foreign capital and more broadly to promoting growth in the region.

I have been around financial markets a long time and for the first time that I can remember in my professional life there is a real increased focus on Africa. I remember when I was working on Wall Street in the late 60's, we once found ourselves holding "Zambian 6s" after the liquidation of a company. A Senior Partner in the firm wanted to know more about these Zambian debt instruments, so one of our people called the consulate and asked where they were located. The consular official gave him the consulate address, and our person said, "No, I mean where is Zambia?" Nowadays, with the increased economic importance of developing nations in general, and the changes that have occurred in Africa, that total lack of focus in the investment world is beginning to turn into opportunity seeking.

President Clinton's recent historic trip to Africa -- the first comprehensive visit to the continent by a U.S. President -- as well as his Partnership for Economic Growth and Opportunity with Africa, has brought more attention to the changes that are happening in Africa, and has intensified focus on Africa's potential. Many Americans, who perceive Africa only as a continent beset by war, famine and environmental devastation -- and, as you well know, these serious problems do exist -- saw another part of Africa. This is the Africa where democracy has started to take root, where 25 nations have held free elections since 1990. This is the Africa where market reforms have also begun to take hold, and, in response, the region's annual average growth rate has risen from less than 2 percent over the period of 1990 to 1994, to 4 percent in the period from 1995 to 1997, and 16 countries had growth rates of 5 percent or greater.

RR-2384

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

But President Clinton's trip also made clear that there is an enormous amount to do before Africa is solidly on the path toward achieving its potential and is fully integrated into the global economy. And as we consider the various objectives that need to be achieved in Africa, bearing in mind the limited resources available in many African countries, we must focus on mechanisms that make the best use of available resources, recognize the gap between the resources and the objective, and relate to the special conditions in Africa -- for example, a greater agricultural orientation and lower savings rates than other developing regions.

Right after the President returned from Africa, a few of us were discussing his trip with him in the Oval Office. He said, among other things, that the African leaders were highly focused on attracting foreign investment and very much wanted to discuss how to do it. Today, I would like to describe some of the components of an environment that attracts foreign investment, with a special focus among those components on financial sectors.

But first, I think it is important to observe that many African governments are taking steps to stabilize and reform their economies and, in the process, make their markets more attractive to foreign investors. Let me mention three areas where there has been progress.

First, on the macroeconomic front, we are beginning to see reformers, for example in Uganda, where growth has averaged 8 percent the last three years. The combined overall fiscal deficit of Sub-Saharan Africa was cut in half from a peak of nearly 9 percent of GDP in 1992 to an estimated 4.5 percent in 1997. Average annual inflation in Sub Saharan Africa is coming down, from 45 percent in 1994 to 15 percent in 1997.

Second, recognizing the importance of investing in people to the long term economic strength of any nation, many Sub-Saharan nations are focusing resources on education, health care and the environment. Africa invests a larger portion of its public funds in education than other developing regions, on average 4.4 percent of national budgets compared with 3.3 percent in East Asia and 3.8 percent in South Asia -- though, to be sure, Africa's public funds per capita are much lower than these other regions.

Finally, African nations are coming together through regional undertakings, which can help to attract foreign investment by providing larger markets for goods and services and larger financial markets. The Southern African Development Community, composed of 14 African nations with a combined annual output of more than $150 billion and total population of 130 million, is working toward a customs union and seeks to develop through integration of financial and capital markets. The West African Economic and Monetary Union has a single Central Bank, uses one currency, has a regional stock exchange and common commercial laws and bank regulatory procedures. The East African Community composed of Kenya, Tanzania, and Uganda is also reviving the closer economic ties that prevailed among its members some years ago, in part to create a larger market to better attract foreign capital. Accomplishing regional integration is obviously very difficult, but the benefits can be very great and it is an effort that should be enthusiastically encouraged.

Responding to these changes, investors have increasingly focused in recent years on Africa. Market capitalization on African stock markets -- excluding South Africa -- has grown from $13 billion in 1993 to $49 billion in 1997, while trading volume has risen from $600 million to $9.4 billion over the same period. In South Africa, the Johannesburg Stock exchange is now the 18th largest market in the world.

Having said that, African capital markets are still extremely small and are often difficult for international investors to access. If you exclude South Africa, the average *daily* trading volume on the New York Stock Exchange in 1997 was two and a half times greater than the *annual* volume of the African stock markets. In 1997, Sub-Saharan Africa received only 2.5 percent of net foreign direct investment, 6.5 percent of net portfolio equity flows, and 4.2 percent of net long-term debt flows to developing countries. And this relative paucity is, in part, because the essential elements of a modern economy which help create the environment to attract private capital are often far from adequately developed. Moreover, government intervention in the economy and inappropriate regulations has limited private sector investment.

Over five years plus in the Clinton Administration, I have traveled to a range of emerging markets -- India, Brazil, Ukraine, Vietnam, the Philippines, China and Indonesia amongst them. More broadly, I worked in financial markets for 26 years, and having seen all that, I believe that there are certain sound policies for any nation that are critical to economic success, and to attracting private investment, including sound macroeconomic policies, open markets, and investing in the long term economic well being of a country through education, health care and the environment. Countries with sound market-based economic regimes and stable political systems, receive the benefits of the flows of capital available in today's global financial markets, while countries lacking those economic and political conditions do not.

Within that context, one of the key lessons to be learned from developing countries over the last quarter century is the importance of having strong financial systems. As we have seen in Mexico and, more recently, in Thailand, Korea and Indonesia, financial instability in developing countries is almost always either triggered by or exacerbated by problems in the financial sector.

With the experiences of other developing countries in mind, let me mention six critical elements which are central to economic development, strong financial sectors, and attracting foreign investment. Moreover, strong financial sectors themselves can be powerful in attracting foreign investment.

First, a sound domestic banking system, with privately owned, competitive banks, supervisory and regulatory structures that approach international standards, and updated property, securities, and banking laws. In its totality, that is an enormous undertaking, and one few developing countries anywhere are even close to accomplishing, but it is essential, and some African countries are on their way. In Mozambique, for example, the aggressive sale of state owned banks has left the banking sector completely in private hands. To adequately regulate the banks, the government, with assistance from the IMF and World Bank, has developed rules and regulations based on models for other developing countries. A key problem in the developing countries is to train a sufficient number of people with the skills for the regulatory functions and for the banking functions in the private sector institutions. Again, World Bank and IMF assistance should be emphasized.

Second, market infrastructure, including global custodial services, automating procedures to clear and settle transactions, and building reliable communication systems. South Africa is taking the lead in developing this kind of world class technology. In 1996 the Johannesburg Stock Exchange introduced automated trading and is moving toward automated clearing and settlement procedures.

Third, a sound and fair legal system, including institutions such as an independent judiciary, measures to ensure the enforcement of contracts, and adherence to international accounting and disclosure standards.

Fourth, a focus on good governance. There are encouraging signs that African leaders and institutions, such as the United Nations Economic Commission for Africa, are taking steps intended to improve governance and combat corruption. Corruption is a prime impediment to sustainable growth, and combating corruption should be a prime focus of all involved in promoting growth in developing countries. Combating corruption also involves developed country participation through the importance of implementing the OECD initiatives to eliminate the tax deductibility of bribes and to criminalize bribery.

Fifth, adequate and reliable economic and financial data for creditor and investor decision making. Subscribing to the IMF's Special Data Dissemination Standards, like South Africa has done, would send a clear signal to investors of a governments commitment to providing reliable data.

Finally, it is also important to expand access to capital for medium, small and micro-enterprises, as well as homeowners and small depositors. Africa's financial systems need to work for a large part of its people, or Africa's economies will not be able to sustain strong growth over time. This can be a critical generator of jobs and income for people outside the economic mainstream.

For example, in South Africa, the Get Ahead Foundation's microenterprise lending, with more than 20,000 loans outstanding, demonstrates that the smallest businesses can be unexpectedly good borrowers Their borrowers include township day care centers, local tire repair shops, neighborhood convenience stores and modest dressmakers equipped with only a sewing machine. Although solid progress has been made in some countries, the existing efforts are small compared to the potential and there is a great need for outside participants

African nations also need to integrate themselves into the global financial markets. Once a solid foundation has been laid for the development of financial systems and capital markets, reforming African countries can gain the attention of the international investment community through the privatization of major parastatals by way of global equity offerings. I remember when I worked on Wall Street how Spain and Mexico were successful in selling the broad story of their economies in the international financial community through global equity offerings of their large utilities. Ghana has followed this approach with the privatization of Ashanti Gold Fields, with positive results.

Clearly, African governments will bear the primary responsibility in pursuing reform and establishing the conditions needed to attract outside capital. When sound policies are pursued, capital will follow, as the experience of emerging markets in Latin America and Asia demonstrates.

But there is much we in the United States can do to support these reformers. Let me emphasize that the measures that I am about to discuss complement, and do not replace, the bilateral aid we will continue to provide to African nations in need of such aid. In addition, we must continue to expand programs from OPIC and the Export Import Bank that already operate in the region. In fact, as I speak, Jim Harmon is traveling in the region, the first visit by the President of the Export Import Bank in over a decade.

I want to say a word about four specific areas in which we can help Africa -- relieving debt, focusing the efforts of the international financial institutions, expanding trade, and providing critical technical assistance.

First, we must continue to provide leadership to reduce indebtedness to sustainable levels of debt. For countries that are committed to reform, it is important to relieve this debt, both to improve the credit environment, and to free up resources to invest in people. For example, Uganda plans to use the money they are saving through debt relief on education and health. In our FY99 budget, the Administration requested funds to cover up to $1.6 billion in debt reduction in Sub Saharan Africa committed to economic reform under the Partnership and in the Paris Club. In addition, the U.S. has been a strong advocate on the HIPC Initiative to provide significant debt relief for the poorest countries, and of interim relief in the international financial institutions, pending completion of the requisite reform programs.

Second, we can encourage development by maintaining our traditional openness to trade and by opening our markets further to those countries that are opening their markets. African nations that have liberalized their trade regimes achieve the best growth. We should support these efforts. That is the logic of the Africa Growth and Opportunity Act before Congress. The Administration strongly endorses this bill and we call on the Senate to pass it.

Third, we are working with the international financial institutions, such as the International Monetary Fund and the World Bank, to support Africa's boldest reformers. The IMF, for example, has indicated that it will provide expanded access to the Enhanced Structural Adjustment Facility in cases where a country is committed to taking bold structural reforms, such as aggressive trade liberalization, which would involve larger financing requirements. The World Bank is aiming to increase new lending to Africa by as much as $1.1 billion in the coming year with the focus on countries committed to opening their economies, investing in human resource development, and ensuring conditions of governance that make progress possible. We are also working closely with the World Bank on a plan to place considerably greater emphasis on regional integration, and to develop whatever financial mechanisms are needed to make more rapid progress in this area. We think that regional approaches to, for example, infrastructure and financial market development, are critically important for encouraging investment and growth in many of Africa's small, land-locked countries.

We are working closely with the International Finance Corporation to identify new opportunities for direct private investment in African enterprises. These measures are geared towards helping those nations that are taking the largest steps to help themselves. Among our activities, we have committed to a capital increase for the African Development Bank, where sweeping internal reforms and a major share restructuring provide a strong basis for renewed confidence, partnership, and financial support. And a nearly finished capital increase negotiation for the World Bank's Multilateral Investment Guarantee Agency positions it to offer political risk insurance to private investors.

Fourth, we are providing technical assistance both from the government and the private sector to help Africans implement macro-economic policies and structural reforms. We should explore ways to facilitate exchanges between Africa and the United States among private sector bankers and other financial institutions, nonprofits, government, and bank regulators to discuss innovative lending techniques and partnerships to serve these markets.

As I said at the beginning of my remarks, the President's trip -- and the changes and trends it highlighted -- has served to intensify focus on Africa. I've been engaged in the beginnings of an economic dialogue with my African counterparts for two years. Many cabinet secretaries have traveled to Africa and we have undertaken a series of trade missions. However, for all of this to have its potential impact, this increased focus must be sustained over time. We are doing just that under the President's Partnership which initiates a systemic dialogue among economic cabinet level officials with African countries for the first time. And we should try to convey to investors that this is a time for people to establish themselves on the ground floor as Africa moves to fulfill its potential.

This summer I hope to see for myself what is happening in Africa when I travel there for the first time. You can talk to people and you can read, but there is no substitute for seeing some place firsthand. I know that I will see an Africa beginning an important period in its history, entering a moment that offers immense opportunities -- and equally immense challenges. There are vast differences between the United States and the African nations, but we also have common interests. A growing, democratic and dynamic Africa, providing higher standards of living for its people, and more political and social stability is very much in Africa's interest. It is also very much in America's economic and national security interest. And that is why we most now come together to meet our respective challenges. Thank you very much

-30-

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

EMGARGOED UNTIL 9:30 A.M. EDT
Text as Prepared for Delivery
April 23, 1998

TREASURY DEPUTY SECRETARY LAWRENCE H. SUMMERS
HOUSE BANKING AND FINANCIAL SERVICES COMMITTEE

Chairman Leach, Representative LaFalce, Representative Lazio, Representative Kennedy, members of the Committee. Thank you for affording me the opportunity to speak with you this morning on the important issue of disaster insurance.

Let me begin by complimenting Representatives Lazio, McCollum, Fazio, and other members of the Committee for the bipartisan leadership they have shown in bringing together concerned interest groups, members of the insurance and reinsurance industries, capital market interests, and state and federal government representatives to discuss this issue. Given the complexity of the issue, and the range of interested parties, the fact that we are here today is a testament not only to the skill, insight, and perseverance of this group, but that of their staffs as well.

Disasters are a matter of grave concern for all: They make no distinctions as to where or whom they strike; they make no pretense of waiting until all who would be affected are fully prepared. Their cost can be astronomical, not only for homeowners, but also for businesses large and small alike, as well as state and local governments. While insurance cannot undo all the costs in human terms, it can provide the foundation for a sound recovery in financial terms. We need to ensure that the insurance foundation is as sound as possible.

My overriding purpose today is to convey to you on behalf of the Administration that we see much promise in the current legislation as a means of addressing many of the problems relating to the availability and price of insurance and reinsurance for disaster risk. We have some concerns with specific provisions of the bill, as I shall outline shortly, but we would hope that continued efforts of the kind that this Committee has sponsored would generate appropriate solutions to these concerns. Moreover, we commit to working with you for the purpose of crafting provisions that would address our concerns. While the resulting legislation would not solve every problem related to Federal policy toward natural disasters, it would, in our view, represent a very constructive step.

RR-2385

1. Diagnosis of the problem

To frame our thinking, let me indicate to you the outlines of the problem as we see it:

- The characteristics of natural disasters make the risk associated with them especially challenging for insurers to handle: they happen only very infrequently, but when they do occur, they can be exceedingly expensive.
- In addition, estimating the losses associated with such an event is extremely difficult. Our models are good, and getting better, but with events this infrequent, it is virtually impossible to gauge their predictive accuracy. This substantially increases the uncertainty faced by both homeowners and insurers.
- As a consequence, prices for disaster reinsurance can be very high, especially if judged in terms of the losses incurred in a typical year. These prices are often quoted in multiples of expected loss; for reinsurance against very low-probability events, these multiples can run in the neighborhood of 4 to 7 times expected losses.
- Not only are prices high, but when a disaster occurs, prices can spike, and availability can be curtailed.

These are the problems that insurers are currently wrestling with. Because of their tremendous capacity for absorbing losses, we view the capital markets, in which disaster risk increasingly can be bought and sold like any other security, as a crucial complement to the traditional reinsurance industry. We have closely monitored the rapid development of capital markets and believe that they should provide for well-functioning markets in the long run. But they remain today in a relatively early stage of development. Clearly, a serious problem remains in the interim.

Indeed, while in the last several years our nation has not experienced what is called a "major occurrence" in the insurance industry, the ravages of Hurricanes Iniki and Andrew, and the Northridge Earthquake are all too recent reminders of the potential scale and scope of possible destruction. These events form the backdrop for our efforts today. We are working today in the knowledge that calamities of almost unimaginable scale do occur; we are also working in the knowledge that a policy we adopt out of the current deliberative process will likely better serve the public interest than a policy that we adopt in the immediate aftermath of another such event.

2. Rationale for Federal involvement

In this context, the rationale for Federal involvement in this market rests on three key considerations:

- First, the Federal government is uniquely capable of spreading risk *across the population.* When a private sector insurance company absorbs risks, it can only pass them on to its stockholders and reinsurers. By contrast, when the Federal government absorbs risks, it can pass them on to the entire population of taxpayers -- clearly a much broader base than is available to any private sector entity.

- Second, the Federal government is uniquely capable of spreading risk *over time*. Private insurers can absorb part of a loss by issuing debt, but there is a limit. In the jargon of economics, a private insurer is said to suffer from "timing risk," which is to say that it can only lose so much money in any given period without being declared bankrupt. By contrast, the capacity of the Federal government to borrow for the purpose of meeting short-term contingencies dwarfs that of any private sector entity.
- Third, the Federal government would likely be saddled with part of the cost associated with a truly cataclysmic event, regardless of the outcome of this deliberative process. Therefore, to some extent, the decision here can be viewed as determining whether the Federal liability will be explicit and deliberate, or implicit and indirect.

Taken together, these considerations constitute a strong case for prudent participation of the Federal government in the market for disaster reinsurance. Lest I be misunderstood, we see this as a case for *limited* participation for a limited time: It is a case for making hardheaded investments on behalf of taxpayers, absorbing risks at a price that provides fair compensation to taxpayers. And it is a case for making those investments for a limited time only, until the private market can mature. Finally, it is a case that argues for exploiting the fiscal capacity of the Federal government in a way that does not jeopardize that capacity.

3. Where we are today

In framing our current thinking on this topic, we have found it useful to enumerate a set of common-sense principles. Specifically, we believe that:

- the government should provide disaster insurance when its ability to spread risk across the population and over time would allow it to do so temporarily on substantially more favorable terms than the private market;
- the government should provide disaster insurance in a manner that avoids imposing a net cost on the taxpayer;
- the government should provide disaster insurance in a way that harnesses existing market forces to the maximum extent, and encourages their further development in the future; and
- the government should be prepared to put itself out of the business of providing disaster insurance, making way for a strengthened private market to take over.

Adhering to these principles will limit the risk that a program of this type could impose on taxpayers. Because the potential liability in this market is so enormous, we must design the Federal role with the same kind of hardheaded fiscal prudence that has been so important in achieving a balanced budget. Adhering to these principles will also ensure that government participation in this market supports private structures rather than supplanting them. Ultimately, private capital markets should be able to diversify this risk as well as or even better than the Federal government. But clearly, the capability of those markets to perform that task will never emerge if government participation is not carefully delimited. We believe that a middle way exists: one that meets the interim need, while preserving adequate incentives for market development for the longer term.

Let me be clear: we believe that HR 219 provides a foundation that could, with suitable modifications, be made consistent with these principles.

In the remainder of my remarks, I will be focussing on HR 219 because that is the legislation before the Committee. However, I should like to make clear that I do not want to preclude other approaches to addressing the problem of disaster insurance. In particular, we still view an industry excess-of-loss contract as a potentially valuable way of providing disaster reinsurance to a broader class of counterparties than state funds. Indeed, we should certainly avoid sending the message with this legislation that, in order to reap the benefits of Federal reinsurance, a state must establish a centralized fund or auction program. An approach that seems promising to us is one that would, in effect, marry the best ideas of HR 219 and HR 230, by offering not only reinsurance to state funds, but also excess-of-loss contracts on similar terms to an unlimited class of buyers, possibly by means of an auction. We think it would be a substantial improvement to the current legislation to ensure that the playing field is kept level, as between state programs and other potential customers of disaster reinsurance.

4. The legislation at hand

Let me now turn to the specifics of the legislation before you. In essence, HR 219 would have the Federal government provide reinsurance to qualifying state funds and auctions for losses incurred on residential policies within the state. It would establish a trust fund that would receive all premium income and the proceeds of any borrowing done on the program's behalf, and would dispense payments in the event of qualifying disasters. In the event that some borrowing is required, the legislation would require every state program participating at the time to continue purchasing reinsurance at no less than the prior level until the borrowing is repaid. The legislation would also establish a Commission for the purpose of advising the Secretary of the Treasury as to the appropriate price for the insurance.

In our view, this legislation represents a constructive and creative response to a serious situation, namely, the difficulty faced by state funds (notably the California Earthquake Authority and the Florida Hurricane Catastrophe Fund) in purchasing extensive reinsurance against low-probability risks, either because the reinsurance is simply unavailable or because premiums are high. We welcome this response, and applaud the efforts of all those who have worked so hard to bring it to this stage.

That said, we do have some concerns about this legislation. But let me be clear: while we view these concerns as important, we would hope that continued efforts of the kind that this Committee has sponsored would generate appropriate solutions.

Chief among these concerns is that the pricing decision be sufficiently insulated from political pressures as to remain objective. In order to buttress the integrity of the pricing process, we suggest that the Secretary of the Treasury be allowed to adjust the Commission's estimate of expected loss upward, but not downward. We also suggest that the language of the legislation be clarified as to the factors that the Secretary should take into account in setting the "risk load" in the price of the reinsurance contracts.

In addition, as I indicated before, we believe the legislation should be modified to provide for the sale of excess-of-loss contracts to all entities on an unrestricted basis. Our objective is to improve the availability of disaster reinsurance, not to favor state programs over other possible vehicles for delivery of insurance to homeowners. Indeed, it might be possible to devise an auction mechanism for the distribution of these contracts; this would have the virtue of ensuring that competition plays a role in setting the price of the contracts, and channeling them to those who see the greatest value in them.

We believe that the scope of the Federal program should be limited, in order to preserve adequate incentive for the further development of the private market. Specifically, we suggest that the Federal program be sunsetted after some fixed number of years; that the Federal program be authorized to underwrite no more than some specified fraction of the risk faced by any given state fund; and that provision be made for periodic review of the trigger points in light of the ongoing development of private markets. In all these respects, the goal should be to ensure that the Federal program supports rather than supplants the private market.

We also suggest that you consider reengineering several aspects of the design of the contracts in ways that might make them more useful to the state funds. Specifically, we suggest that you consider covering multiple perils rather than a single peril. We suggest that you carefully consider how best to limit the Federal liability under this program. The current legislation proposes a cap on aggregate payout; it strikes us as possible that some other mechanism might be preferable. For example, a simple limitation on the amount of insurance that any particular state fund could purchase might serve the same objective, without causing the value of the insurance to each state to depend on the actions of all other states. We also suggest that the state funds *not* be compelled to continue as purchasers of reinsurance in the event that borrowing is required to make good on some other state's contracts. And we suggest that eligibility for the Federal program not be contingent on the state program's using a specified fraction of its investment earnings for mitigation.

I have attached as an Appendix a staff document that lists a number of technical questions regarding the legislation in greater detail.

The budgetary treatment of this legislation is a complex and highly technical topic, and my purpose today is not to explore those issues with you, not least because, as many of you know, these are not settled issues. Nonetheless, it would be our hope, first, that the legislation could be reworked along the lines we have suggested, and second, that we could accomplish our goals without burden to the taxpayers, or adverse impact on the deficit. I look forward to working with you to preserve the integrity of the pricing that is envisioned in the current language.

While the list may seem long, all of our suggestions derive from our two core concerns, that relief for affected homeowners not come at the expense of taxpayers, and that any federal program support, rather than supplant, private markets. We look forward to working with Members of this Committee, its staff, representatives of industry, of affected communities and with other stakeholders to resolve these issues.

5. Conclusion

From the beginning, the Clinton Administration has recognized the urgency of improving the nation's ability to deal with natural disasters. Indeed, our initial efforts on this issue culminated in a February 1995 Administration Policy paper, "Natural Disaster Insurance and Related Issues." In that paper, as you know, we supported the idea that the Federal government should issue excess-of-loss contracts as a means of fostering liquidity in the market for disaster insurance. We also strongly supported a comprehensive approach, including among other elements, measures to ensure that cost-effective mitigation is undertaken. We still believe in the wisdom of a comprehensive solution, and reaffirm the importance we attach to prudent and appropriate mitigation. However, further study has made clear to us the impracticality of achieving all of our objectives in one Federal program.

Progress on this issue has been too long in coming. We believe that we all share a clear recognition of the urgent need for moving forward on a timely basis. In particular, we will certainly be well served if we have a sensible and constructive structure in place before the next major disaster strikes. Surely, the time to build a better roof is when the sun is shining. The current legislation provides a sound foundation for progress in this area, and I look forward to working with you to improve the legislation.

Appendix

Technical Questions about HR 219

This appendix lists a number of concerns about the current legislation, and advances some ideas for addressing them.

- In the letter of invitation, you asked for comments on whether it would be useful, in terms of insulating the pricing decision from political pressures, to limit the Secretary's discretion in deviating from the recommendation of the Commission regarding expected cost. We believe that such a limitation would be helpful; we recommend that the Secretary be given one-sided discretion, to move the estimate of expected cost up from the Commission's estimate, but not down.
- An additional salutary feature of the current language in the bill is that the Secretary is given discretion to increase the "risk load" component of the price upward from 1 times expected cost. It would be helpful if the legislation specified that, in making this determination, the Secretary's objective should be to provide taxpayers with fair compensation for the risk they are bearing, and that the factors he takes into account should include the stage of development of empirical models of natural disasters, and the state of private markets, among other factors.
- The budgetary impact of this program is critical. It is extremely important that the proceeds from the sale of Federal disaster insurance not be spent or otherwise dissipated. If these proceeds were spent, and then a covered event were to occur with an associated payout from the Federal government, the pressure on the fisc would be greater with this program than without. How best to prevent this from happening is a difficult question. The present language in the legislation proposes the creation of a Disaster Reinsurance Fund, for the purpose of accumulating premium payments and disbursing payouts in the event a covered disaster occurs. A Fund of this type has the virtue of suggesting that the revenues from the program should not be diverted to other purposes, and that the program should be viewed as operating on a self-financing basis. However, it has the potential shortcoming that the balance in the Fund at any given time could easily provide a misleading signal as to the adequacy of pricing. If a calamity were to occur in the early years of the program, the Fund would run a negative balance for a very long time (financed by Treasury borrowing), and the temptation would be to conclude that premium rates had been set too low. On the other hand, if -- as is hoped -- no covered event occurs for a period of some years, the balance in the Fund will accumulate to a substantial sum, and some will question the need for continuing to levy additional premiums "simply" for the sake of building up the balance in the Fund further. The desirability of a Disaster Reinsurance Fund is an open question, and the relative pluses and minuses must be weighed from the perspective of maximally ensuring the integrity of pricing.
- As for the form of the insurance, one option would be to authorize the Federal government to provide aggregate coverage for more than one event occurring within a

12-month period, rather than just a single event. Discussions with various market participants suggest that a great deal of concern revolves around the availability of coverage for a second event.

- Careful consideration should be given to the question of whether Federal liability should be capped at $25 billion per year across all insured programs. A disadvantage of this approach is that it would cause the value of the reinsurance to any given State to depend on the decisions of other States. An alternative approach would be to limit the amount of reinsurance that any given State program can purchase.

- On a related point, the legislation as currently written specifies that *all* State programs with reinsurance in force at the time that any borrowing is undertaken on behalf of the Federal program would be required to continue purchasing reinsurance at no less a level until the debt is fully paid off. It may be preferable to omit this requirement. Imposition of this requirement would substantially complicate the decision of any given State program as to whether it should participate in the Federal program, and could lead to divisive controversies regarding transfers of resources across States.

- With regard to the Commission, it may be advisable to augment its membership to include experts from the world of finance and economics, since knowledge of those fields will certainly be germane to the pricing decision.

- With regard to the eligibility requirements for state programs, it may be desirable not to require these programs to commit a specified percentage of their investment earnings toward mitigation. States should engage in all cost-effective mitigation and no more, and it is not clear that linking the mitigation decision to an arbitrarily specified fraction of net investment earnings would advance this objective. Similarly, the pricing decision by State programs should be tied to actuarial risk, and it is not clear that creating a requirement to fund mitigation advances that objective.

- The Committee should consider augmenting the legislation with a number of measures designed to preserve incentives for the development of a parallel market for disaster risk in the private sector. Specifically, the program could be hardwired to sunset after some fixed period of time, perhaps 10 years: in light of the rapid pace of development of private capital markets, this should provide ample time for alternative mechanisms to develop that will allow State programs to lay off their risks efficiently.

- The Federal program should be authorized to underwrite no more than some specified fraction of the risk in excess of the trigger faced by each participating State fund, perhaps 50 percent. Even with a limitation of this type, the Federal commitment would be very substantial relative to the volumes currently being transacted in private markets, and the resulting program would still leave an incentive for private market development even while the Federal program is in operation. Provision should also be made for periodic review of the trigger points in light of the ongoing development of private markets.

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.
April 22, 1998

CONTACT: Office of Financing
202/219-3350

TREASURY TO AUCTION 2-YEAR AND 5-YEAR NOTES TOTALING $24,000 MILLION

The Treasury will auction $13,000 million of 2-year notes and $11,000 million of 5-year notes to refund $31,430 million of publicly held securities maturing April 30, 1998, and to pay down about $7,425 million.

In addition to the public holdings, Federal Reserve Banks hold $2,201 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 $5,334 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.

The 2-year and 5-year notes being offered today are eligible for the STRIPS program.

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

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

oOo

Attachment

RR-2386

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

HIGHLIGHTS OF TREASURY OFFERINGS TO THE PUBLIC OF 2-YEAR AND 5-YEAR NOTES TO BE ISSUED APRIL 30, 1998

April 22, 1998

Offering Amount	$13,000 million	$11,000 million
Description of Offering:		
Term and type of security	2-year notes	5-year notes
Series	AC-2000	F-2003
CUSIP number	912827 4C 3	912827 4D 1
Auction date	April 28, 1998	April 29, 1998
Issue date	April 30, 1998	April 30, 1998
Dated date	April 30, 1998	April 30, 1998
Maturity date	April 30, 2000	April 30, 2003
Interest rate	Determined based on the highest accepted competitive bid	Determined based on the highest accepted competitive bid
Yield	Determined at auction	Determined at auction
Interest payment dates	October 31 and April 30	October 31 and April 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
STRIPS Information:		
Minimum amount required	Determined at auction	Determined at auction
Corpus CUSIP number	912820 CV 7	912820 CW 5
Due date(s) and CUSIP number(s) for additional TINT(s)	Not Applicable	April 30, 2003 912833 RV 4

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

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
April 23, 1998

Contact: Dan Israel
(202) 622-2960

TREASURY RELEASES CHILD CARE REPORT

The Treasury working group on child care today delivered to President Clinton a report on child care from Secretary Robert E. Rubin. The report, *Investing in Child Care*, discusses what businesses can do to promote access to affordable, high quality child care for their employees.

"This report carries an important lesson: investments in child care can pay off in real dividends for employers and employees," said Secretary Rubin. "As this report attests, providing access to child care not only benefits the individual, but it also benefits the company by enabling it to attract and retain the best people. Addressing child care problems is critical to the well-being of our economy as we enter a new century."

Before the presentation of the report, First Lady Hillary Rodham Clinton and White House Chief of Staff Erskine Bowles discussed the findings with the group of business and labor leaders from across the country who have been actively involved in promoting child care at their own companies. Many businesses have found that the advantages of child care programs and workforce flexibilities are felt not only by employees, but by the company's bottom line as well.

The Treasury report looks at a number of areas beyond on-site care in which employers can further help their employees with child care, including: resource and referral programs; flexibility for working parents; corporate partnerships; and out of school care.

"I encourage businesses to draw lessons from the best practices presented in the report to help determine what best meets their needs going forward," Secretary Rubin said. "By identifying and publicizing programs such as the ones contained in this report, we hope to replicate these successes around the country in large and small businesses."

The report comes in response to President Clinton's request last year that Secretary Rubin convene a group of business and labor leaders to focus on best practices in the private sector and public-private partnerships which address child care problems facing working parents. The report

RR-2387

is available on the Internet at *www.treas.gov/press/releases/docs/chdcare.pdf* or from the National Child Care Information Center; their phone number is (800) 616-2242.

The members of Treasury's working group on child care are: First Bank of Colorado CEO Doug Price; General Converters & Assemblers president and CEO George Stinson; AFL-CIO president John Sweeney and executive vice president Linda Chavez-Thompson; Eli Lilly and Co. chairman and CEO Randy Tobias; Travelers Group CEO Sandy Weill; and Marcy Whitebook, national co-director of the Center for the Childcare Workforce.

-30-

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
April 23, 1998

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 52-WEEK BILLS

Term:	364-Day Bill
Issue Date:	April 30, 1998
Maturity Date:	April 29, 1999
CUSIP Number:	912795BW0

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate 1/	Price
Low	5.120%	5.402%	94.823
High	5.130%	5.413%	94.813
Average	5.125%	5.407%	94.818

Tenders at the high discount rate were allotted 7%.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 40,153,935	$ 7,793,935
Noncompetitive	1,060,612	1,060,612
PUBLIC SUBTOTAL	41,214,547	8,854,547
Federal Reserve	5,210,000	5,210,000
Foreign Official Inst.		
Refunded Maturing	1,255,000	1,255,000
Additional Amounts	0	0
TOTAL	$ 47,679,547	$ 15,319,547

1/ Equivalent coupon-issue yield.

RR-2388

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

Remarks as Prepared for Delivery
April 22, 1998

SECRETARY ROBERT E. RUBIN
ASSOCIATION FOR ENTERPRISE OPPORTUNITY

It is a pleasure to speak with you today. You are valuable partners in one of our highest priorities in the Clinton Administration: fostering growth in economically distressed communities. I have long thought -- and I know President Clinton shares this belief -- that this is an issue of vital importance to all of us -- no matter where we live or what our incomes may be. It is a fundamental national *economic* issue, because our country will never reach its full economic potential, unless we deal with the problems of the inner city and other economically distressed communities. Just think of the difference it would make in terms of increasing productivity and standards of living while reducing the costs connected with social problems if we can bring all Americans into the economic mainstream.

And now, at a time when we are enjoying the best economic conditions in our country in a generation, it is critical that we focus on this critical challenge.

I believe that with sufficient will we can succeed. The key is to identify strategies that work and replicate them in sufficient scale on a sustained basis around the country. Our strategy involves a three-pronged approach:

The first is strengthening public safety. In addition to the human costs, high crime rates are a significant barrier to economic activity. The President has made this a high priority through the Brady Bill, the assault weapons ban, both of which Treasury is deeply involved in, and his program to put 100,000 police on the streets.

Second, is investing in people, through education and training, from pre-school to adults, through improving the "job readiness" of the least advantaged and connecting them to the workforce. At Treasury we are deeply involved in these issues in the development and advocacy of the President's budget.

Third is increasing access to private sector capital, and other measures to create economic activity in the inner cities and other areas. 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 financial institutions and of access to credit to create housing and jobs in the inner city
RR-2389

and in rural communities. At Treasury, we have been involved in bringing our broad expertise to bear on these issues.

Over the last five years, in part because of our efforts to strengthen the Community Reinvestment Act, private sector lending in distressed areas has increased enormously. In 1996 alone, large commercial banks made $18 billion in community development loans -- funds used to produce affordable housing, finance small business, and develop retail and commercial revitalization projects. In the last four years, national banks have invested four times as much in community development as they did in the previous thirty years.

Promoting micro-enterprise is another key component of our strategy. This is an approach that the First Lady has tirelessly supported both here and abroad. Internationally, micro-enterprise has proven effective in developing countries in bringing the poorest segments of society into the economic mainstream -- something I have seen very clearly in my travels as Treasury Secretary to developing countries. For example, in the Philippines, I met a woman who had used a micro-enterprise loan to buy a mini-van to use as a taxi. Her family was now prospering as a result. This summer I will visit Africa for the first time and I plan to take a look at how micro-enterprises are being created there.

Here in the United States, we have learned from these examples and adapted them for our own market. Both at home and abroad, it is clear that, in order to be effective, access to capital is not enough -- it must be combined with training, education and technical assistance. That combination has been central to our approach at Treasury's CDFI Fund.

The CDFI Fund is key to the Administration's strategy of promoting micro-enterprise in the United States. The Fund has provided over $3 million to micro-enterprise organizations, and helped countless more to support micro loans. The Fund also has provided technical assistance to organizations and has just launched a special round focused on the technical assistance needs of the field.

The CDFI Fund not only provides technical and financial assistance but also focuses attention on micro-enterprise through the Presidential Awards for Micro-Enterprise Development. These awards go to a diverse set of institutions. For example, last year, in the first round of awards announced by the President and the First Lady at a White House ceremony, the Nebraska Microenterprise Partnership won an award for its comprehensive funding and technical support of the state's microenterprise industry. The Awards help highlight the success of individuals like Veronica Hargrove-Brown, a single mother who started a home-based child care business in her neighborhood in San Diego with support from a small loan from ACCION San Diego, a Presidential Awardee. I am pleased to announce today the launch of the second round of Awards, which will be awarded later this year. I hope you all will participate.

With CDFI, we have a vision that makes sense, a program that is up and running, and money that has begun to flow to communities and make a difference in people's lives. That is why it is critical that Congress now reauthorize the Fund and provide secure, stable and adequate funding going forward so that communities across the country can continue to benefit from the Fund's work. Reauthorization and obtaining the President's request of $125 million for CDFI are top priorities of the Administration.

Let me conclude by thanking all of you for your hard work in promoting economic opportunity in distressed areas. I applaud AEO's new goal -- to assist one million low income individual to achieve self-sufficiency by self employment by the year 2008. Achieving goals such as that is a very good investment in the long-term economic well being of not only the people who you are reaching directly, but all of us. I look forward to working with you in the days and weeks ahead as we continue to address this critical challenge. Thank you very much.

-30-

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
April 24, 1998

Contact: Michelle Smith
(202) 622-2960

STATEMENT BY TREASURY SECRETARY ROBERT E. RUBIN ON JAPAN

We welcome the substantial policy measures announced today by the Japanese government. These are positive steps. We hope the government will put these measures into place quickly and effectively and move forward with further actions, including measures to strengthen Japan's financial system and open and deregulate its economy, to help establish a sound basis for long-lasting, domestic-demand-led growth. The whole world, including Japan's Asian neighbors, has a strong interest in seeing Japan succeed in generating a strong domestic recovery that will contribute to recovery in Asia.

-30-

RR-2390

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

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

EMBARGOED UNTIL 1:15 pm CDT
Remarks as Prepared for Delivery
April 24, 1998

TREASURY SECRETARY ROBERT E. RUBIN
CHICAGO BOARD OPTIONS EXCHANGE

It is a pleasure to speak with you today on the occasion of the 25th Anniversary of the Chicago Board Options Exchange. I can remember in the early 1970s when a fellow from Chicago named Joe Sullivan came around with a strange new idea, listing market options. I introduced him to our Senior Partner, a legendary Wall Street figure, named Gus Levy. Gus listened to Joe and said, "I think we can make some money here." We were already doing an active over-the-counter options market, but we got involved with Joe Sullivan, Leo Pomerantz, Eddie O'Connor and all the others in thinking about and planning this new institution and I became a founding director. When it opened its doors in April of 1973, Joe called me and said, "We're all set." We thought we would rush to the floor to make the first order, but somebody got in ahead of us. In any case, we did some 90,000 contracts the first day, which, relative to the over-the-counter options market, was an enormous volume, and the CBOE has never looked back.

The CBOE, the first listed market in derivatives, helped catalyze the thinking on listed futures, options on government securities and other instruments that later gave rise to the enormous market in listed derivatives. There are now 55 of these exchanges trading derivatives around the globe. Today these instruments are a vast business, which has brought substantial benefits with respect to the effectiveness and efficiency of our capital markets, but which has also created new risks that need to be effectively addressed. All of this development in derivatives has been a manifestation of how dynamic and creative our economy is -- and that dynamism and creativity are key to the success of our economy.

The development of these markets are emblematic of the emergence of the global economy and global financial markets that has occurred over the last quarter century -- and this emergence of the global economy and global financial markets have brought enormous benefits to workers, farmers and businesses in the United States, and around the globe.

RR-2391

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

Today I would like to discuss four challenges that we face if we are going to continue to be a successful economy in the years and decades ahead. Let me start by putting these challenges in the context of the present state of the economy.

Today, the United States has the strongest major economy in the world, and we are viewed as a country that has put its economic house in order. Unemployment is 4.7 percent and it has been under 6 percent for the last three years. The economy has generated 15 million new jobs over the last five years, inflation has remained low and real wages are rising.

On the private sector side, this success has been critically fueled by the remarkable job American business has done over the past decade in restoring its competitiveness in a broad array of industries, after having been written off by much of the world in the preceding decade. On the public sector side, key and indispensable to the economic conditions of the past five years has been an economic strategy grounded in fiscal responsibility, beginning with the deficit reduction act of 1993, opening markets, and for the longer term, public investment in our people to promote productivity.

However, we must not let the progress we have made mask the challenges we face in building a prosperous economy and society for the years and decades ahead. If the United States were a business, and we were enjoying a period of success such as the past five years, we would think about what might be the vulnerabilities to our competitive position five, ten or fifteen years from now, and then we would position ourselves to meet those challenges. That is exactly what we have tried to do in this Administration, and in that context, let me now turn to the four challenges that I believe we must meet to continue our present economic success in the years and decades ahead, in addition to the private sector maintaining its competitiveness.

First, we must remain diligent in keeping our nation's fiscal house in order. The President has made what I believe is a sensible proposal on what to do with budget surpluses: put the money away until we address Social Security reform. The President is now actively working to foster debate and discussion to lead to a consensus. At the same time, there are proposals for tax cuts or spending increases that are not fully paid for which threaten the fiscal discipline we have worked so hard to restore. Fiscal discipline is not an easy path, but I believe it is the essential path.

Second, we must continue to work to improve education in all of its aspects, but especially our public school system. In today's global economy, education is the key to prosperity for an individual, and for a country. This Administration has focused intensely on improving education from K-12 and beyond by expanding Head Start, proposing voluntary national standards, proposing in the present budget funding for school construction and hiring more teachers to reduce class size, and last year's enacted post secondary school tuition tax credits. But, clearly, much more needs to be done.

Third, we face the challenge of tremendous social costs and loss of productivity that result from having millions of Americans left out of the economic mainstream -- a problem that is most closely associated with our inner cities. This is a problem that affects all of us, no matter where we live or what our incomes may be. Just think of the difference it will make with respect to reducing social costs and improving productivity and fostering growth if we can bring all Americans into the economic mainstream. The Administration has been active on many fronts and in addition there have been many innovative programs happening in state governments, local governments and in the private sector. For example, I recently visited one right here in Chicago -- the Runner's Club, a mentoring program that pairs successful businessmen with budding African American entrepreneurs to assist them as they start their businesses.

Early in the Administration, a reporter from a well respected European weekly interviewed me, and at the end, said that our economy was doing very well but that ten or twenty years from now we'd be a second tier economy. I asked why he thought that, and he said the answer was our public schools and our inner cities. My own view, now that I've spent five years focusing on our economy and economies around the world, is that we have tremendous strengths and a great potential in a global economy, but we do need to more effectively deal with the critical issues that reporter identified if we are to fully realize that potential.

Fourth and finally, we must continue to be deeply engaged in providing leadership on the issues of international economic policy. A successful strategy on these issues to promote American prosperity in the global economy includes three components: first, opening markets and trade liberalization; second, promoting growth and reform in the developing world and transitional countries; and third, dealing with the problems of financial instability and crisis when they occur, both immediately, and in the long term, by strengthening the architecture of the international financial system. Let me discuss the point of financial instability for a few minutes.

As I said earlier, the development of the global economy and global financial markets have brought tremendous opportunities for American workers, farmers, and businesses. But there have also been risks, and these have been brought home by the financial crisis in Mexico in 1995, and most recently in Asia.

As you well know, by doing everything sensible to help these Asian countries get back on track, we support our exports to the region and help strengthen their currencies, which helps the competitiveness of our goods in world markets and we reduce the risk that financial instability will spread to other developing countries. That is why the United States has exercised very strong leadership throughout this situation to help resolve the Asian crises.

Moreover, even before the turmoil in Asia, the United States and the international community have been working to strengthen the international financial architecture. Our aim is to promote broadly shared growth in both the developed and developing world, to be better able to prevent future crises, and to deal with them when they occur; in short, to make the architecture as modern as the markets. We began this effort four years ago at the Naples G-7 meeting. Working together, the G-7 launched the first concretes steps the following year at the summit in Halifax.

This process involves great intellectual complexities and great international political complexities and will occur not at one time, but in pieces over an extended period of time. And, let me note, derivatives and other off-balance sheet items will be one of the most complex facets of this process.

Let me briefly focus on three areas:

First, providing better information through improved disclosure and transparency. As all of you know very well, in the modern, complex global financial markets investors need more types of information then ever before. When investors are well-informed, use that information wisely, and expect to bear their consequences of their actions, they will make better decisions. That is good for them and can be a powerful force in promoting good policies among nations. National policy makers also need better information, to guide their actions, and anticipate potential problems.

However, just as important as having good information is using that information well. One of the things that amazed us during the Asian crisis was how few of the international creditors and investors in these economies had appropriately focused on the risks involved. One of the things we have to do is maximize incentives for investors and creditors to use the available information and appropriately weigh risk.

One aspect of transparency and disclosure has to be for public and private institutions to better identify and disclose the effects of derivatives and other off-balance sheet items on financial risks and vulnerabilities. In addition, regulators need access to this type of information and need to be able to share information with their colleagues in other countries in order to better respond to problems as they develop.

Our second area of focus is on building strong national financial sectors. A common element amongst the countries involved in the crisis in Asia -- and, for that matter, in virtually all countries experiencing financial crises -- is a badly flawed domestic financial sector. Given the effects that weak financial systems can have internationally, the time has come for a more systematic approach to strengthening national financial systems that would involve a more intensive assessment of the vulnerabilities in national financial systems. We have proposed a series of concrete steps to strengthen financial sectors through enhanced international surveillance.

Our third area of focus is on creating mechanisms so that the private sector more fully bears the consequences of its credit and investment decisions, including in times of crisis. In a world in which trillions of dollars flow through international markets every day there is simply not going to be enough official financing for the crises that could take place. There is also a risk with international assistance of what economists call "moral hazard:" that providing official financial assistance shields creditors and investors from the consequences of bad decisions and sows the seeds of futures crises. Some protection of creditors may result as a by-product of the overarching objective of restoring financial stability, but this protection should be kept to the minimum possible. However, while the whole question of private sector involvement is extremely complicated, we are exploring various mechanisms so investors bear more responsibility for their actions, and thus have a better incentive to analyze and weigh risks appropriately.

While we are focusing on strengthening the architecture, it is absolutely imperative that IMF resources be sufficient to deal with new crises should they occur. IMF resources are at historic lows. The Senate has passed legislation to approve the U.S. contribution to the IMF by a vote of 84-16 but there is a serious bottleneck in the House. While the probability of the crisis worsening or spreading or of a new crisis is low, the potential impact on our economy of any crisis is simply too great to risk not having the capacity to respond effectively. While the day to day battles over funding in Washington may seem remote to you, every day that Congress does not approve the President's request for IMF funding increases our vulnerability to a crisis.

The debate over IMF funding symbolizes one of the key lessons which I have drawn from the last few years: there needs to be a redoubled effort by all of us to communicate with the American public the dynamics of the new global economy and the importance of U.S. leadership in the global economy to our well being. I am deeply concerned that public support for forward looking international economic policies may be moving backwards at a time when this country's economic, national security and geopolitical interests require just the opposite. In this regard, the business community has a crucial role to play. It is unique in that it understands the importance of these issues -- and has the means to promote that understanding.

One of the real problems that stands in the way of building support for a forward-looking international agenda is that the benefits of globalism are not evenly shared. One troubling facet of the global economy is that workers with high skills and in high-value added industries are doing very well, but low-skilled workers and workers with low education are too often not doing as well. So even while most Americans are enjoying the benefits of our growing economy, too many people are being left behind. Ultimately, this is an issue we need to address if we are to build support for flexible labor markets, trade liberalization and maintaining leadership in the global economy.

The U.S. is well positioned to maintain a strong economy for the future. But our success depends on business doing what it must to maintain its competitiveness and government doing what it can to address the issues I have discussed. If we work together, we can keep the economy on the right track and meet the challenges of the new century. Thank you very much.

-30-

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
April 24, 1998

Contact: Michelle Smith
(202) 622-2960

TREASURY DEPUTY SECRETARY TO VISIT YOUTH EMPLOYMENT PARTNERSHIP, COMMUNITY DEVELOPMENT PROJECT SITE

Treasury Deputy Secretary Lawrence H. Summers will tour the Youth Employment Partnership (YEP) -Youthbuild project site at 10 a.m. (PDT) Tuesday, April 28 in building 821 of the Naval Supply Base in West Oakland, California.

The YEP -Youthbuild project at the Naval Supply Base in West Oakland is the deconstruction of a three-acre warehouse currently slated for demolition. While providing job training in construction work to at risk youth, the project plans to put more than 800 tons of construction waste to better use. As a result of this project, more than 800,000 board feet of construction-grade Douglas Fir and other products will be available for use in the construction of low-income housing in Oakland.

Community Bank of the Bay, a community development financial institution, provides working capital financing to the Youth Employment Partnership. The Bank's mission is to promote economic prosperity and self-reliance in low and moderate income areas while operating a safe and profitable bank.

The Department's CDFI Fund was created in 1994 to use limited federal resources to invest in and build the capacity of private, for-profit and non-profit financial institutions, leveraging private capital. Since its inception, the Fund has made $75.5 million in investments in 75 CDFIs, including community development banks, loan funds, credit unions, venture capital funds, and microenterprise loan funds.

Representatives from the Youth Employment Partnership, the Community Bank of the Bay and construction trainees working at the project will brief Deputy Secretary Summers on the project, followed by a tour of the deconstruction site. Directions to the site are attached.

RR-2392

Directions to the Youth Employment Partnership worksite at the Naval Supply Base:

Take the Bay Bridge to Oakland. From the Bay Bridge, proceed to I-580 east. Take I-580 to I-980 (downtown Oakland) and exit at 11/12th Streets. Upon exiting the offramp, continue straight on Brush St. to right turn on 3rd St. Go several long blocks to left turn on Adeline St. Pass over overpass and road becomes Middle Harbor Road. After overpass, go .7 mile to stoplight and turn left into Harbor Transportation Center/ Naval Supply Depot. Do not take the first right turn marked for the Naval Supply Depot. Instead continue straight for one block and turn right past building 734. Turn right again at next corner and go to end of block. Building 821 is on your left.

Press Contacts:

Michelle Smith	Treasury Department	(202) 622-2960
Marcy Lynn	Community Bank of the Bay	(415) 356-9626

-30-

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
April 24, 1998

Contact: Peter Hollenbach
(202) 219-3302

BUREAU OF THE PUBLIC DEBT AIDS SAVINGS BONDS OWNERS AFFECTED BY ARKANSAS STORMS, TORNADOES

The Bureau of Public Debt took action to assist victims of tornadoes in Arkansas by expediting the replacement or payment of United States Savings Bonds for owners in the affected areas. The emergency procedures are effective immediately for paying agents and owners in those areas of Arkansas affected by the storms. These procedures will remain in effect through June 30, 1998.

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

Arkansas counties involved are Craighead, Lonoke, Mississippi, and Pulaski. Should additional counties be declared disaster areas the emergency procedures for savings bonds owners will go into effect for those areas.

The replacement of bonds lost or destroyed will also be expedited by Public Debt. Bond owners should complete form PD-1048, available at most financial institutions or the Kansas City Federal Reserve Bank's Savings Bonds Customer Service Department, 925 Grand Avenue, Kansas City, Missouri 64198; phone (816)881-2000. This form can also be downloaded from Pubic Debt's website at www:publicdebt.treas.gov. Bond owners should include as much information as possible about the lost bonds on the form. This information should include how the bonds were inscribed, social security number, approximate dates of issue, bond denominations and serial numbers if available. The completed form must be certified by a notary public or an officer of a financial institution. Completed forms should be forwarded to Public Debt's Savings Bond Operations Office located at 200 Third St., Parkersburg, West Virginia 26106-1328. Bond owners should write the word "STORMS" on the front of their envelopes, to help expedite the processing of claims.

RR-2393

o0o

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
April 24, 1998

Contact: Peter Hollenbach
(202) 219-3302

BUREAU OF THE PUBLIC DEBT AIDS SAVINGS BONDS OWNERS AFFECTED BY TORNADOES IN KENTUCKY

The Bureau of Public Debt took action to assist victims of tornadoes in Kentucky by expediting the replacement or payment of United States Savings Bonds for owners in the affected areas. The emergency procedures are effective immediately for paying agents and owners in those areas of Kentucky affected by the storms. These procedures will remain in effect through June 30, 1998.

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

Kentucky counties involved are Adair, Barren, Metcalfe and Warren. Should additional counties be declared disaster areas the emergency procedures for savings bonds owners will go into effect for those areas.

The replacement of bonds lost or destroyed will also be expedited by Public Debt. Bond owners should complete form PD-1048, available at most financial institutions or by writing the Kansas City Federal Reserve Bank's Savings Bond Customer Service Department, 925 Grand Avenue, Kansas City, Missouri 64198; phone (816) 881-2000. This form can also be downloaded from Public Debt's website at: www.publicdebt.treas.gov. Bond owners should include as much information as possible about the lost bonds on the form. This information should include how the bonds were inscribed, social security number, approximate dates of issue, bond denominations and serial numbers if available. The completed form must be certified by a notary public or an officer of a financial institution. Completed forms should be forwarded to Public Debt's Savings Bond Operations Office located at 200 Third St., Parkersburg, West Virginia 26106-1328. Bond owners should write the word "STORMS" on the front of their envelopes, to help expedite the processing of claims.

RR-2394

oOo

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
April 24, 1998

Contact: Peter Hollenbach
(202) 219-3302

BUREAU OF THE PUBLIC DEBT AIDS SAVINGS BONDS OWNERS AFFECTED BY TORNADOES IN TENNESSEE

The Bureau of Public Debt took action to assist victims of tornadoes in Tennessee by expediting the replacement or payment of United States Savings Bonds for owners in the affected areas. The emergency procedures are effective immediately for paying agents and owners in those areas of Tennessee affected by the storms. These procedures will remain in effect through June 30, 1998.

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

Tennessee counties involved are Campbell, Davidson, Lawrence, Maury, Pickett and Wayne. Should additional counties be declared disaster areas the emergency procedures for savings bonds owners will go into effect for those areas.

The replacement of bonds lost or destroyed will also be expedited by Public Debt. Bond owners should complete form PD-1048, available at most financial institutions or by writing the Richmond Federal Reserve Bank's Savings Bond Customer Service Department, 701 East Byrd Street, Richmond, Virginia 23219; phone (804) 697-8370. This form can also be downloaded from Public Debt's website at: www.publicdebt.treas.gov. Bond owners should include as much information as possible about the lost bonds on the form. This information should include how the bonds were inscribed, social security number, approximate dates of issue, bond denominations and serial numbers if available. The completed form must be certified by a notary public or an officer of a financial institution. Completed forms should be forwarded to Public Debt's Savings Bond Operations Office located at 200 Third St., Parkersburg, West Virginia 26106-1328. Bond owners should write the word "STORMS" on the front of their envelopes, to help expedite the processing of claims.

RR-2395

o0o

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
April 27, 1998

Contact: Michelle Smith
(202) 622-2960

MEDIA ADVISORY

Treasury Secretary Robert E. Rubin, Health and Human Services Secretary Donna E. Shalala, Labor Secretary Alexis M. Herman and Commissioner of Social Security Kenneth S. Apfel will discuss the results of the Medicare and Social Security Trustees annual meeting and annual reports at a press briefing at 12:30 p.m. tomorrow, Tuesday, April 28, in the Diplomatic Reception Room, Room 3311 of the Main Treasury Building, 1500 Pennsylvania Avenue, N.W.

Media without Treasury, White House, State, Defense or Congressional press 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. This information may be faxed to (202) 622-1999.

-30-

RR-2396

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
April 27, 1998

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Term:	91-Day Bill
Issue Date:	April 30, 1998
Maturity Date:	July 30, 1998
CUSIP Number:	912795AD3

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate 1/	Price
Low	4.930%	5.061%	98.754
High	4.940%	5.073%	98.751
Average	4.940%	5.073%	98.751

Tenders at the high discount rate were allotted 75%.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 26,540,477	$ 3,864,222
Noncompetitive	1,308,589	1,308,589
PUBLIC SUBTOTAL	27,849,066	5,172,811
Federal Reserve	3,747,815	3,747,815
Foreign Official Inst.		
Refunded Maturing	595,400	595,400
Additional Amounts	0	0
TOTAL	$ 32,192,281	$ 9,516,026

1/ Equivalent coupon-issue yield.

RR-2397

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
April 27, 1998

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Term:	182-Day Bill
Issue Date:	April 30, 1998
Maturity Date:	October 29, 1998
CUSIP Number:	912795AP6

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate 1/	Price
Low	5.090%	5.296%	97.427
High	5.120%	5.328%	97.412
Average	5.115%	5.324%	97.414

Tenders at the high discount rate were allotted 56%.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 24,686,288	$ 3,814,498
Noncompetitive	1,139,032	1,139,032
PUBLIC SUBTOTAL	25,825,320	4,953,530
Federal Reserve	3,780,000	3,780,000
Foreign Official Inst.		
Refunded Maturing	2,310,600	2,310,600
Additional Amounts	0	0
TOTAL	$ 31,915,920	$ 11,044,130

1/ Equivalent coupon-issue yield.

RR-2398

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
April 28, 1998

Contact: Public Affairs
(202) 622-2960

MEDIA ADVISORY

Treasury Secretary Robert E. Rubin and IRS Commissioner Charles O. Rossotti will announce the federal law enforcement expert who will conduct the comprehensive independent review of the IRS Criminal Investigation Division -- part of the IRS seven-point plan to improve the Criminal Investigation Division -- at a press conference at the Treasury Department on Tuesday, April 28 at 10:45 a.m.

DATE:	Tuesday, April 28, 1998
TIME:	10:45 a.m.
PLACE:	Diplomatic Reception Room, room 3311 Main Treasury, 1500 Pennsylvania Avenue, NW
LOGISTICS:	Media without Treasury, White House, State, Defense, Justice or Congressional press 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. This information may be faxed to (202) 622-1999.

-30-

RR-2400

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

EMBARGOED UNTIL 3:30 EST
Remarks as Prepared for Delivery
April 28, 1998

"The Challenges of Success"
Remarks by Lawrence H. Summers,
Deputy Secretary of the Treasury
Hambrecht & Quist Technology Conference
San Francisco, California

Thank you. It is a pleasure to be here in San Francisco at this conference which brings together the two most dynamic elements of the world's most dynamic economy: American technology companies and American finance.

We live in a truly remarkable time for your industries -- and for the United States. In the last 300 years there has not been a protracted period when the country with the world's greatest GNP has had as high a ratio to the country with the world's second greatest GNP. There has not been a time in the last 300 years when the country with the strongest military forces had as large a ratio to the country with the second largest military forces. And there has not been a time in the last several hundred years when a country has been so powerful as an example around the world, from the English language, to Coca-Cola, to the Internet, as the United States is today.

Last year on a trip to Africa I had an experience that has stayed with me. I was at a meeting in Mozambique, one of the very poorest economies in the world. The room was filled with representatives of America's leading investment banks and brokerages. A man worriedly pulled me aside. He was Mozambique's only private Internet provider, and he feared that competition was coming.

That experience brought together what I think are the most important forces in the world today: American strength, competition and technology, and globalization. I would like to reflect today on what they mean for our country and for our national and international economic policies.

RR-2401

I. The New American Economy

Economists can debate new paradigms, but all can agree that these are good times for the American economy. The right things -- employment, real wages, national savings and investment -- are all up. And inflation, crime, the welfare rolls and the budget deficit are all down, indeed, lower than they have been in a generation.

The world looks very different than it did at the beginning of this decade, a time when America was said to be in decline. It is now clear that America will grow faster in this decade than Japan and Europe. Their four-decade-long story of convergence has ended and America is pulling further ahead.

Why this success? A large share of the credit must go to the two forces that this conference brings together: technology and finance.

It cannot be an accident that communism, planning ministries throughout the developing world and large corporations run by command and control all ran into a brick wall in the same decade and had to be restructured. New technologies have forced profound changes in the way economic and financial life is organized -- changes for which we are fortunate that our economy is superbly well adapted. And if you want to talk about patient capital look not to Japan, where the same old money was invested in companies using the same old technologies in the same old industries. Look right here in California, where millions are invested before revenues, let alone profits come, and anyone with a good idea can make their first million before buying their first tie.

The twin forces of information technology and modern competitive finance are moving us toward a post-industrial age. And if you think about what this new economy means -- whether it is AIG in insurance, McDonald's in fast-food, Walmart in retailing, Microsoft in software, Harvard University in education, CNN in television news -- the leading enterprises are American.

While we must seem a long way away sometimes, public policy and the right economic strategy has made an important contribution here in California.

First, in sound macroeconomic policies:

- policies that recognized that a strong and sound currency matters;

- policies that recognized that Fed-bashing was a fool's game: it does not change short-term interest rates because the Fed does not respond, but it does increase long-term interest rates because the bond market does;

- and finally policies that recognized that budget deficits were a burden this nation could no longer afford to carry. As a result of the deficit reductions we have seen in this decade, more than one trillion dollars in capital that would otherwise have been invested in the sterile asset of government paper has instead been invested in America's future: in our productive businesses, in our workers, in our cities and in our homes.

Second, we have made a shift from the politics and policy of envy to the politics of opportunity and worked to make government a positive force in our society and our economy. To note just a few examples:

- we have brought the federal government to bear in improving the quality of the education our children receive, from the creation in 1994 of the Early Head Start program for disadvantaged children under 3, to last year's 220,000 new Pell Grants and the $1500 Hope Scholarship tax credit to help ensure that every American can get at least a community college degree;

- we have worked to invest government seed money in technologies that will be critical to our future, for example in the $100 million President Clinton has proposed in his balanced budget to develop the next generation Internet;

- and we have worked to ensure that the Internet continues to develop for the good of every American, unfettered by clumsy regulation or discriminatory taxes and tariffs -- as evidenced by our support for the Internet Tax Freedom Act recently introduced in the House by Congressman Cox of California and in the Senate by Senator Wyden of Oregon.

Third, we have worked to promote an open global economy, with 240 new trade agreements lowering barriers to American goods since 1993, including:

- the ratification of NAFTA and the completion of the Uruguay round of the GATT;

- and ground breaking international trade liberalization agreements within the World Trade Organization in the critical sectors of telecommunications and financial services.

- Just this month, President Clinton joined the heads of Latin American governments in Santiago de Chile to begin negotiations to create a Free Trade Area of the Americas.

Since President Clinton took office, the number of export-related jobs has increased by 1.7 million. On average, these pay 15 percent more than the average wage. Some 1.3 million jobs in California are supported by trade -- more than 20 percent more than in 1992. One third of the growth in GDP we have enjoyed in this expansion has come through exports.

All of this is impressive. And indeed, people from around the world come to America and people from around America come to the valley. But I would suggest to you that prosperity without public purpose may prove hollow and short-lived. We have achieved an enormous amount in these latter years of this century. But we have an enormous amount yet to do if we are to be sure of carrying those achievements safely forward.

II. The Challenges We Face

There has been another time in our nation's history when an explosion of new wealth and new technology was transforming the way many Americans lived; when our companies were enjoying unprecedented success; when our elected leaders vowed to shrink government and preached self-reliance; but when workers were fearful for their security and blamed their insecurity on immigrants and foreign competition. That time was 1927.

There followed a series of catastrophic economic and foreign policy errors that sent the world shuttling toward what were perhaps the darkest years in human history. History does not repeat itself. Any historical analogy between the world today and the world of the 1920s is surely imperfect. But the experience of the late 1920s offers important lessons -- and challenges for policy makers today.

1. Domestic Leadership

Technology does provide Americans with remarkable opportunities, but they are not there for those who cannot read, and a child born today in Harlem is less likely to learn to read than a child in Shanghai or the very poor Indian state of Kerala.

This is a period of remarkable freedom and opportunity, but when conditions in this country are such that two percent of American men in the prime of their lives are in prison, we are also squandering enormous opportunities for our people and our economy.

The Internet is doing remarkable things for our financial system, but very little for the significant fraction of Americans who do not have a bank account and have to pay usurious fees just to get their paychecks cashed.

If our success is to continue, if our economy is to be what it has to be, and if it is to be a secure prosperity that we enjoy -- then we as a country have to do more to ensure that all are included.

None of us would say we know all the answers. Certainly, we have learned that just throwing money at these problems doesn't work. And certainly we know that no government program is a substitute for individual responsibility. But equally we have learned that these problems do not and will not simply solve themselves without public action.

If we consider what technology means for education, for enabling long distance learning and more effective, close-up learning in our schools; if we consider what technology means for fighting crime, in better information and communication at the local, state and national level; if we consider what technology has already done to complement the skills and increase the productivity of some of our least-skilled workers -- then it seems clear that technology will be one important part of the solution to the problems this country faces, even if it will surely not be the whole solution.

It is a new economy. But success still depends on old virtues, education, savings and hard work and these we must strive to promote for all our citizens.

2. Leadership Abroad

As important as our responsibility to promote strong, stable and inclusive growth at home is our responsibility to promote strong and inclusive growth at the international level.

In considering what this responsibility entails it is worthwhile considering the enormous changes that have taken place beyond our borders these past several years. The last decade has seen substantially more rapid progress in the developing word than the industrialized world. We have witnessed growth that is unprecedented in human history: countries where more than 2 billion people live are growing at rates where standards of living double in less than a decade, something never seen in the economic history of the United States or any country in Europe.

That profound change, creating for the first time a global economy, doubling standards of living again and again, in countries where a large fraction of the world's population lives is an event that I would suggest ranks in economic history with the Renaissance and the Industrial Revolution.

This growth in the developing world -- home to over 70% of the world's population -- is tremendously important for our economy and our security. Sustaining this progress to build a truly global prosperous economy will involve many different things. Let me focus today on the area we at Treasury are most involved in: the flow of capital and finance.

There are many reasons for the progress that has already been achieved: the spread of market institutions and market ideology, and the spread of new technology are high among them. But I would suggest to you that a very important part has been played by the annual one quarter of one trillion dollars in global capital that has flowed to the developing world in recent years -- capital that has been a source of growth in emerging economies as it has been a source of innovation and diversification in the industrialized world.

Our efforts at the international level must begin with this fundamental linkage between strong growth and strong capital flows around the world. Our goal must be to make the global capital market work more effectively as a source of opportunity -- and reduce its capacity to be a source of instability.

I do not need to remind this audience of the threat that the recent financial instability has posed to American jobs, American savings and American security. Thankfully, we can talk in a much more encouraged way about the region today than we could three months, even one month ago:

- in Korea and Thailand, we can see new governments working with steadfastness to implement the adjustment measures agreed with the International Monetary Fund -- steadfastness that is paying dividends in stable currencies and rising reserves;

- in Indonesia, though the situation is still extraordinarily difficult, we can see that is at least more stable -- not just in terms of the currency but the broader political environment -- than we might have thought possible a few weeks back;

- and throughout the emerging market economies, we see a number of shoes that have not dropped -- in Latin America we have seen determined actions by governments not contagion; in China we have seen unwavering commitment to the renminbi peg not devaluation; and most recently in Russia we have seen financial market calm rather than panic in the face of a dramatic cabinet reshuffle.

Still very significant is the situation in Japan, which effective implementation of the welcome measures recently announced will be crucial. Successful Japanese efforts at economic stimulus, financial restructuring and deregulation and market opening are important for Japan, Asia and the global economy.

Still, we are sufficiently out of the emergency room that we can and must now look beyond today's problems to the longer term reform challenges we face. In many ways the emergence of global financial markets can be likened to the invention of the jet airplane. We can go where we want to go much more quickly, we can get there more comfortably, more cheaply and most of the time more safely -- but the crashes when they occur are that much more spectacular. Governments can respond to the invention of jet airplane by improving air traffic control and lengthening the runway or by banning jet landings. It is obvious which is better.

Let me just mention three of the challenges we will face in working to reduce the risk of crises and deal more effectively with those that do take place.

The first effort will be ensuring there is greater transparency and openness in both the private and public sector around the world. No one can now doubt the power of abundant information in helping us manage risk and reduce financial stability. There are obvious questions of cause and effect, but Mexico's economic turnaround started around the same time it started to publish economic and financial information for all to observe on a regular time frame.

As you know, every domestic prospectus filed with the Securities and Exchange Commission has been available on-line since May 1996. We may be a long way from that at an international level. But I consider it a minor, but not insignificant, triumph of the IMF that in Korea somebody who teaches a night school class in accounting told me that he normally has 22 students in his winter term and this year has 385. We need such progress for every company in the global economy and every country. And we need that transparency to apply to central banks. In particular, we must recognize that it means nothing for a central bank to report its reserves if it does not report the encumbrances on those reserves.

The second challenge will be to work to strengthen financial systems, both globally and at the level of individual countries. That means improved prudential standards, investing in training for bank regulators and supervisors, and the promotion of effective financial infrastructure. But the ingredients of sound banking systems go well beyond a list of internationally recognized standards -- it means cultivating a credit culture, sound supervision, limits on the quality of assets at a bank's disposal, limits on government safety nets, and effective controls on self-dealing.

The third, and most difficult task will be to find mechanisms to bail in investors not bail them out and to ensure that policy makers do not confront the choice between uncontrolled chaos and confusion on the one hand and large bailouts on the other -- which is too often the choice they confront today. This task has a microeconomic and a macroeconomic dimension. Countries need bankruptcy laws. And they need effective judicial institutions to enforce them. That is part of being in a global capital market. But we also need procedures for dealing with situations where countries get themselves into very profound financial difficulties at the sovereign level. In short, we need systems that can handle failure, because until the system is safe for failure we will not be able to count on success.

These and other reforms will be critical to seizing the opportunities and managing the risks of a 21st century global economy. And make no mistake: American leadership will be critical to ensuring that these changes happen, and happen in a way that promotes our interests.

That is why it is so important for us to maintain our support for the IMF so it is ready to deal not just with today's crisis, but other crises down the road. The late 1920s and early 1930s provide a vivid enough reminder of the risks of a laissez-faire approach to financial sector problems. Quite simply, to fail to support the IMF at this time is a bit like canceling your life insurance when you have already gotten sick: it is just not a risk we can afford to take.

All of you know that not financing the IMF -- not financing the United Nations, not supporting Fast Track -- are critical issues for all of us who are concerned about the future of our economy.

III. Conclusion

This is a remarkable conference. Such a combination of technical creativity and financial backing would have been unimaginable a decade ago and probably would be unimaginable in any other country. Let me be clear: we get it in Washington about what technology and finance have done and can do to make people's lives better and we have worked to put the right framework in place. And yet, if you take anything away from what I have said here today, it is that, as important as technology and finance are, their full potential will not be realized without a sense of public purpose.

When President Clinton was here in San Francisco in February he made the point that if you look at every period of dramatic change in this nation's history -- be it the Civil War or the Industrial Revolution -- the advances have come when we have deepened the meaning of freedom, expanded it to more people, and widened the circle of opportunity and prosperity to build a stronger, more united nation. That must be the purpose for all of us as we approach a new millennium. No two industries better reflect the possibilities of a 21st century global economy than finance and technology -- and none has a greater stake in ensuring that every American takes part. Thank you.

-30-

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

FOR RELEASE AT 12:30 EDT
April 28, 1998

STATEMENT OF SECRETARY ROBERT E. RUBIN
ON THE RESULTS OF MEDICARE AND SOCIAL SECURITY TRUSTEES MEETING

Today, the Boards of Trustees of the Medicare and Social Security trust funds met to complete our annual review of the financial status of the trust funds and to issue a report on their financial health.

With respect to Medicare, a number of legislative improvements, contained in the Balanced Budget Act of 1997, have been implemented since last year's report. Today, our report shows that the exhaustion date for the Hospital Insurance program has been pushed back to 2008, and it also indicates that the 75-year actuarial deficit has been substantially reduced. These outcomes are a direct result of the enactment of the Balanced Budget Act and the recent strong performance of the economy.

However, the long-term problem for Medicare, though not as severe as we projected last year, is still substantial. As a result of the aging of the population, we are still projecting that significant cost pressures will develop relatively soon in the next century. Last year, we recommended the creation of an advisory group to review the complex issues underlying these expected cost increases, and to help fashion solutions. In this regard, we are pleased to note that the BBA also established the National Bipartisan Commission on the Future of Medicare, and that this Commission has begun its work. The improvement in the 75-year outlook for Medicare makes a strong contribution toward the work of the Commission.

The BBA bought us time, but it is vital that we take the necessary steps to restore long-term solvency to the Medicare program as quickly as possible.

For the combined Social Security trust fund the short-run situation is different -- it is solvent in the near term, but we project that it will be exhausted in 2032, 3 years later than projected last year. Thus, there is no immediate crisis in this program, but, as the report shows, and as the President and others have indicated, the long-range financing deficit in the Social Security program needs to be addressed in a timely way, so that retirement planning can be adjusted in response to program changes. Extensive public discussion and analysis of the practical implications of alternatives is essential for developing the broad support that will be

RR-2402

needed to enact any Social Security legislative reform. The President's plan to facilitate this dialogue will be very helpful in accomplishing that objective.

The health of both the Social Security and Medicare trust funds is important for the millions of Americans who depend on these programs today, and for the millions who will depend on them in the future. Preserving and modernizing Social Security and Medicare is not a partisan issue. We will be able to construct acceptable solutions to the longer-term challenges of both programs only if we join together and act on a bipartisan basis.

-30-

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.
April 28, 1998

CONTACT: Office of Financing
202/219-3350

TREASURY'S WEEKLY BILL OFFERING

The Treasury will auction two series of Treasury bills totaling approximately $13,000 million, to be issued May 7, 1998. This offering will result in a paydown for the Treasury of about $1,875 million, as the maturing publicly held weekly bills are outstanding in the amount of $14,881 million.

In addition to the public holdings, Federal Reserve Banks for their own accounts hold $7,648 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 $1,596 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-2403

HIGHLIGHTS OF TREASURY OFFERINGS OF WEEKLY BILLS
TO BE ISSUED MAY 7, 1998

April 28, 1998

<u>Offering Amount</u>	$5,750 million	$7,250 million
<u>Description of Offering</u>:		
Term and type of security	91-day bill	182-day bill
CUSIP number	912795 AE 1	912795 AQ 4
Auction date	May 4, 1998	May 4, 1998
Issue date	May 7, 1998	May 7, 1998
Maturity date	August 6, 1998	November 5, 1998
Original issue date	February 5, 1998	May 7, 1998
Currently outstanding	$11,502 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 three decimals in increments of .005%, e.g., 7.100%, 7.105%.
(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 $1 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 Savings time on auction day

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

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
April 28, 1998

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 2-YEAR NOTES

Interest Rate:	5 5/8%	Issue Date:	April 30, 1998
Series:	AC-2000	Dated Date:	April 30, 1998
CUSIP No:	9128274C3	Maturity Date:	April 30, 2000
STRIPS Minimum:	$320,000		

High Yield: 5.677% Price: 99.903

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 80%.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 33,285,580	$ 11,720,275
Noncompetitive	1,283,056	1,283,056
PUBLIC SUBTOTAL	34,568,636	13,003,331
Federal Reserve	1,191,000	1,191,000
Foreign Official Inst.	1,400,000	1,400,000
TOTAL	$ 37,159,636	$ 15,594,331

Median yield 5.669%: 50% of the amount of accepted competitive tenders was tendered at or below that rate.

Low yield 5.610%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

EMBARGOED UNTIL 10 A.M.
Text as Prepared for Delivery
April 29, 1998

TREASURY UNDER SECRETARY FOR DOMESTIC FINANCE
JOHN D. HAWKE, JR.
HOUSE BANKING AND FINANCIAL SERVICES COMMITTEE

Mr. Chairman and members of the Committee, I am pleased to appear today to discuss issues that may be raised by several large financial institution mergers that have recently been proposed. I will not address the particulars of the proposed transactions, and I will leave to the bank and thrift agencies having regulatory jurisdiction in this area questions about the standards and method of reviewing such transactions. Instead, I will discuss factors that we believe may underlie the trend toward consolidation in the banking industry, the potential effects of such mergers, and the relevance of some of these mergers for proposals to modernize our financial system.

I. Factors Driving Large-Scale Mergers

Several factors have contributed to recent and proposed large-scale mergers. The significance of each factor may vary depending on the size of the merger, whether it involves institutions that operate in the same markets, and whether the merger involves only combinations of depository institutions or also other financial services providers. The Treasury Department study prepared by Robert Litan and Jonathan Rauch last year described these factors, which I will briefly summarize.

> Technological advances in information processing and telecommunications have greatly increased the speed and decreased the cost of transferring information and funds. For some lines of financial business, large firms are better able to afford the technological sophistication required to compete successfully, with potential cost savings for consumers.

RR-2405

- Technological advances have spurred financial innovations, especially securitization and derivative instruments that improve the identification, dispersion, and pricing of risks. The result has been a broad array of financial products available at lower cost and a blurring of traditional boundaries among types of financial services providers.

- With dramatic growth in transnational finance during the last two decades, financial institutions need to expand sufficiently to compete in global markets for corporate customers seeking the best funding options worldwide.

- The growth of nonbank providers of financial services (e.g., money market mutual funds and commercial paper underwriters) has also accelerated the blurring of distinctions between types of financial services firms. Commercial banks have seen their share of total financial intermediary assets decline from about 60 percent at the end of World War II to roughly 25 percent today. Banks have responded by moving into new financial product areas themselves, sometimes through acquisition or merger.

- Mergers have provided a way for many firms to increase efficiency and profitability by taking advantage of economies of scale and scope, and to diversify risks that stem from geographic or product concentrations of earnings sources.

- Regulators and lawmakers have played a significant role in the recent structural changes in the industry by gradually removing barriers to competition. The elimination of geographic restrictions on banking has been a prime example. Starting in the late 1960s, restrictions on intrastate branching by banks, which had limited the ability of banks to expand by merger, began to disappear. Intrastate expansion through the multibank holding company format picked up momentum after the 1970 amendments to the Bank Holding Company Act. In the 1980s the states began to feel more comfortable with the entry of out-of-state banking organizations, and we began to see the rise of interstate "compacts" that permitted holding companies to make acquisitions across state lines, initially on a reciprocal basis within defined regions and then more broadly. This movement culminated in the Riegle-Neal legislation of 1994, which facilitated not only nationwide holding company acquisitions, but nationwide branching as well. As a result of these developments, restrictions on geographic expansion have virtually disappeared, as is reflected by the fact that the annual number of interstate bank-to-bank mergers, which had been in the single digits through 1994, jumped to 189 by 1997.

II. Potential Effects on Industry Concentration

In response to the recent spate of mergers, some have raised the question of whether increased concentration in banking could adversely affect competition. Consideration of this question may be aided by a review of concentration trends.

Traditional antitrust analysis of bank mergers, guided by the Supreme Court's landmark decision in the 1963 *Philadelphia National Bank* case, has focused concern on the competitive effects of mergers in local markets. Individuals and small business customers of banks, who have been seen as locally limited in their choice of banking alternatives, have traditionally relied on depository institutions in their local market for credit and other banking services, while larger businesses have typically had a wider geographic range of choices.

Recognizing that market shares are likely to be smaller as the geographic market in which they are calculated becomes larger - and thus the apparent competitive effects of a particular merger less significant - the courts and enforcement agencies have applied measures of acceptable concentration almost exclusively in locally defined markets. Where particular transactions have threatened to exceed acceptable levels in local markets, antitrust objections have frequently been addressed through selected local divestitures. Because of the focus on local markets, however, and the inability of existing antitrust rules to reach bank mergers and acquisitions that involve market extensions and that do not present unacceptable local market overlaps, larger and larger combinations have been possible as restraints on geographic expansion have disappeared.

As a consequence, concentration in local markets has remained constant through the merger wave of the 1980s and 1990s, even as concentration has increased nationally and the number of banking organizations nationwide has declined -- by more than 40 percent since 1980. Federal Reserve data show that the average share of commercial bank deposits held by the top three banks in metropolitan markets has held steady between 65 and 68 percent in every year from 1980 (66.3 percent) through 1997 (65.4 percent). In rural markets, this three-bank concentration ratio has held between 88 and 90 percent during the same period. These data do not, of course, tell the whole story, for while nominal concentration in local markets has not materially changed, the nature of local banking has changed profoundly in many areas, as locally owned institutions have been absorbed into larger statewide or regional organizations headquartered far away. I will discuss the potential effects of this trend on consumers, small businesses, and communities later in my statement.

In contrast to local markets, concentration of banking at the national level has increased appreciably. Federal Reserve data show that the share of commercial bank deposits held by the top 10 banking organizations has increased from about 19 percent in 1980 to 30 percent in 1997. While Congress has evidenced concern about concentration on a national level, in part by establishing a 10 percent nationwide deposit concentration limit on bank merger and acquisition applications, antitrust rules have not yet established the entire country as a relevant market in which to evaluate the competitive impact of bank mergers in the product market comprised of the bundle of products and services included within commercial banking. Moreover, companies that have a national range of alternative lending sources may well have the ability in today's financial marketplace to borrow, securitize assets, or issue commercial paper worldwide.

Despite this trend toward increased concentration nationwide, small banks remain profitable and new banks continue to be established, even as the elimination of restrictions on nationwide branching makes it easier for large banks to enter new markets *de novo*. The OCC has reported that about 460 new national and state-chartered banks began operations from 1994 through 1997.

III. Effects on Consumers, Small Businesses, and Communities

Recent merger proposals have understandably raised concerns about the effects of increased concentration on consumers of banking services -- what they pay, the quality of service, the adequacy of consumer protections, the effect on communities, and the availability of credit for individuals and small businesses. These are clearly important questions for policy makers.

While structure data indicate that local market concentration is not generally increasing, the absorption of locally owned and operated banks into large institutions headquartered in distant cities presents conflicting considerations. On one hand, large institutions should be able to bring to local markets the benefits of greater efficiencies and product diversification. However, surveys indicate that many individual customers of local banks acquired by larger institutions believe they are losing benefits that only smaller banks can offer – particularly the more personalized service that smaller banks provide. Other survey data also provide some evidence that large banks charge higher fees than smaller ones. While higher fees charged by large banks may in part be offset, for example, by lower lending rates and a greater variety of services, the tangible and intangible benefits that individuals obtain from their local bank relationships demonstrate why consumers are so troubled about the potential for acquisition of the banks they have come to know.

These consumer attitudes also explain in part why community banks continue to thrive in spite of recent consolidation trends, and why many new banks continue to be established every year. Small banks provide a level and continuity of services that their customers appreciate, and the presence of federal deposit insurance provides customers assurance that funds invested in a small bank are not at risk.

These developments and consumer attitudes make it particularly important that the protections of the Community Reinvestment Act be maintained, and not weakened, as some have proposed. They also make it especially important that in considering such transactions the regulators assure that large combinations involving the disappearance of local institutions will not result in an erosion of the commitment and obligation of banks to serve effectively the convenience and needs of the local communities that they have been chartered to serve. However the banking system may evolve, CRA must continue to be looked to as a first line of defense for ensuring that the credit needs of local communities are being met.

The continued focus of antitrust analysis on the effects of mergers on locally limited small business borrowers is also of great importance. Even though concentration in local markets may not be increasing, a recent Federal Reserve paper found that mergers may initially reduce small business lending, even though subsequently other banks may move in to fill the void or the merged institution may refocus its efforts to retain or expand its small business customer base. Antitrust analyses of individual mergers have traditionally paid special attention to the potential impact on lending to small business, and we are confident that this focus will continue in the future.

IV. Effect on Supervision

The advent of mergers of unprecedented size also raises an important question whether the apparatus of bank supervision is capable of dealing effectively with institutions of vastly increased size. Indeed, some have questioned whether institutions are being created that may be too big to manage effectively. I will defer to the regulators for a discussion of the adequacy of supervision to address the challenges of large-scale mergers.

It is important to note, however, the significant role Congress has already played in ensuring that strong safety and soundness safeguards undergird the banking system as it continues to evolve. In particular, the FDIC Improvement Act of 1991 (FDICIA) required supervisors to ensure that banks maintain appropriately high levels of capital, and it mandated a regime of prompt and increasingly stringent corrective actions by supervisors in the event bank capital levels should begin to fall. As a result of FDICIA, bank capital levels are now at significantly higher levels than they were during earlier periods. Both the Treasury Department's Financial Modernization proposal as well as the bill reported out by this Committee last year would build on the foundation laid by FDICIA by requiring that banks engaging in new financial activities, whether through subsidiaries or affiliates, be and stay at the highest level of capitalization. This focus on the maintenance of high levels of bank capital is of critical importance not only in the context of financial conglomeration under Financial Modernization, but in the context of very large bank mergers.

We would also note that any assessment of the capacity to adequately supervise large financial holding companies must account for functional regulation, which our Financial Modernization proposal and others strengthen. Supervision of large financial holding companies with banking, securities, and insurance units would be shared among the Federal Reserve, the appropriate federal banking regulators, the SEC, and state insurance authorities.

V. Implications for the Safety Net

Some have raised concerns that larger and larger mergers may create institutions that would be considered "too big to fail" if they were threatened with insolvency, increasing pressure on the Government to protect uninsured depositors and other creditors from loss in order to avoid systemic risk.

Systemic risk refers to the possibility of a sudden, usually unexpected, event disrupting the financial markets quickly enough and on a large enough scale to cause significant harm to the real economy. The Treasury study prepared by Robert Litan identified three sources of systemic breakdown:

- Cascades. Systemic risk may arise from the business that banks and other financial institutions conduct with each other, e.g., small banks typically hold deposits in larger banks. The failure of a large bank or other financial firm could trigger in domino-like fashion the failure of other firms to which it owes money. The fear of a cascade of losses was a major reason why the Government extended protection to all depositors of the failed Continental Illinois Bank in 1984. Inter-linkages among large banks and securities firms that have developed through the huge growth in derivatives contracts also raise the potential for cascading losses, as do the end-of-day net settlement practices of the privately operated large bank payments system (CHIPS).

- Contagion. A deposit run on one troubled bank may become contagious when uninsured depositors at other banks decide to run as well out of fear for the safety of their funds. Unlike cascades, systemic risk manifested in the form of contagious deposit runs can cause banks to fail whether or not they have claims on each other. Contagion need not be limited to bank depositors, but could also affect markets for short-term debt instruments (e.g., commercial paper).

- Asset implosion. A sudden and sustained drop in asset values is another source of systemic risk. A stock market crash, for example, could significantly harm consumer and business confidence and trigger an economic downturn. Elements of contagion and cascades that may accompany an implosion in asset values (e.g., selling induced by margin calls) may worsen the decline.

It is important to understand exactly what is meant by "too big to fail," for even in past cases in which government support has been provided for insured depository institutions facing an insolvency, significant losses have been experienced. Shareholders and subordinated debt holders, for example, almost always have suffered the loss of their investment, managers have lost their jobs, and directors and others responsible for the institution's demise have been held accountable in damages, and in some cases criminally.

The critical question is generally whether uninsured depositors and unsecured nondeposit creditors should be held harmless from loss. In a properly functioning marketplace, this should, first and foremost, be a question of expectations – that is, what should uninsured claimants be led to expect will happen to their claims if the bank fails. If, as has been the case at some times in the past, government routinely steps in to assist takeovers in which uninsured claimants are made whole, so that an expectation of protection is created, it may be difficult or impossible to allow such claimants to experience losses when a particular insolvency arises.

On the other hand, if government policy – both the applicable legal structure and regulatory practices – are carefully crafted to negate such an expectation, there should be no institution that creditors should perceive to be so big that they could rely on governmental intervention to safeguard them against loss. Fortunately, Congress and the regulators have in recent years taken significant steps in this direction, and any creditor that advances funds to an insured depository institution today with the expectation of being fully protected is ignoring the history of recent years:

- Least-cost resolution. Most importantly, in FDICIA Congress required the FDIC, when deciding how to resolve a depository institution facing default, to choose the method of resolution least costly to the deposit insurance fund, which generally would mean not protecting uninsured creditors. Although there is an exception to the least-cost rule where systemic risk may be threatened, that exception cannot easily be invoked, and there are significant consequences for the industry if it is. The law requires the consent of two-thirds of FDIC Board members and Federal Reserve Board members, as well as the consent of the Secretary of the Treasury, in consultation with the President, and the industry must repay to the insurance fund, through higher insurance assessments, any loss that the fund realizes as a result.

- "Purchase and Assumption-Insured Only" Transactions. The least-cost resolution requirement of FDICIA altered the primary method by which FDIC resolves failing banks. For several years prior to FDICIA, the FDIC closed many failing banks using a "traditional" purchase and assumption transaction, whereby an insured bank purchased certain assets of the failing bank and assumed all deposits, insured and uninsured, with the FDIC providing financial assistance to fill the gap between liabilities and assets. From 1986 through 1991, 81 percent of the 1,072 bank failures were resolved by traditional purchase and assumption transactions and other methods that fully protected uninsured depositors. Since FDICIA, however, FDIC has closed failing banks primarily through "purchase and assumption-insured only" transactions, in which the acquirer purchases assets and assumes only insured deposits. While uninsured depositors may receive some funds from the FDIC in advance of the liquidation of bank assets, they have ultimately been forced to absorb a share of the losses. From 1992 through 1997, only 37 percent of the 188 bank failures were resolved by methods that fully protected uninsured depositors..

- Depositor Preference. A law enacted in 1993 gives depositors a preference over other creditors in their claims against the estate of a failed bank, thus mitigating the need for government intervention to protect uninsured depositors in the event of a large bank failure and creating an incentive for nondeposit creditors to exercise greater discipline. The markets have reacted to depositor preference (and to least cost resolution) to reflect the changed status of nondeposit liabilities: for example, it is now routine in derivatives transactions to require collateralization of exposures.

- Prompt corrective action. Too often in the past, decisions about government intervention were confronted only after an institution's real economic net worth had run out. Indeed, in many cases, supervisory forbearance simply provided an opportunity for uninsured creditors to exit a failing institution, leaving the burden of loss with the FDIC. FDICIA's requirement that supervisors ensure that banks meet rigorous capital standards, and its mandate to undertake prompt corrective actions to correct capital and managerial deficiencies well before real net worth is exhausted, work toward protecting all claimants against loss.

Beyond these developments, which should send a strong signal to the marketplace that reliance on too-big-to-fail is exceedingly risky, other important changes have increased the protections against the effects of one bank's failure spreading to others:

- Limits on interbank liabilities. The Federal Reserve's Regulation F has reduced too-big-to-fail concerns by prohibiting one bank from having an interday credit exposure to another bank in excess of 25 percent of the exposed bank's capital, unless the exposed bank can demonstrate that the correspondent is adequately capitalized. The regulation also requires that each bank establish policies and procedures to limit interbank credit exposures.

- Improved Clearing and Settlement: Expedited clearing and settlement of transactions and increased use of clearinghouses for foreign exchange trading has worked toward reducing risk exposure from interbank liabilities.

Clearly, the most effective way to avoid confronting a too-big-to-fail situation is to avoid postponing supervisory action against troubled banks until failure is imminent. Regulators, through their actions, must condition expectations in the marketplace -- especially in good times -- that uninsured depositors and other creditors will not be bailed out if the institution gets into trouble. Only by such conditioning can the discipline of the market place be brought to bear on institutions.

We believe that Congressionally mandated reforms and market developments have to a large extent curtailed expectations of too-big-to-fail treatment. But the issue is sufficiently important that we should explore additional means of assuring against the prospect of having to confront a too-big-to-fail choice, and it is particularly appropriate that we do so at a time when the industry is in very good shape, as it is today. To this end, Congress might want to study a few recent proposals that could enhance market discipline and offset the damaging effects of too-big-to-fail perceptions and practices.

There have been several proposals, including one by Robert Litan in last year's Treasury study, that would require large banks to regularly issue publicly traded subordinated debt. Not only could subordinated debt act as a signaling device, alerting uninsured depositors and creditors to problems as subordinated debt holders demanded increased rates, but it would act as a disciplining constraint on bank management, who would be on notice that imprudent practices would be likely to raise their funding costs.

There are other interesting proposals, including one by the Minneapolis Federal Reserve Bank that would mandate that in the event of a failure of a very large bank (that is, a bank that may be covered by FDICIA's systemic risk exception to least-cost resolution), uninsured depositors and other deposit-like creditors would incur some loss. As with the FDIC's current resolution techniques, such a mandate would counter the expectation of full protection that may give rise to a governmental judgment that a bank is too big to fail.

Both sets of proposals could enhance market discipline, encourage even better disclosure of banks' true financial condition, and perhaps provide a basis for more risk-sensitive pricing of deposit insurance.

VI. Implications for Financial Modernization

The current large bank-to-bank mergers are proceeding under existing law, and can be expected to continue even in the absence of Financial Modernization legislation. Such legislation is relevant, however, to the proposed Citicorp-Travelers merger, as insurance and securities underwriting in the new company would otherwise be prohibited and restricted, respectively. Our Financial Modernization proposal and the House Banking Committee bill would have allowed such combinations to occur, but only in the presence of significant safety and soundness protections.

Any Financial Modernization proposal should provide strong safety-and-soundness protections for banks involved in such transactions. Thus our proposal and the House Banking Committee bill, by requiring that the bank be and remain well capitalized and well managed (with strong sanctions for failures to adhere to these requirements), direct supervisory attention to the most appropriate place. The further requirements that a bank take a capital "haircut" if new activities are conducted in an operating subsidiary, and that the firewalls of sections 23A and 23B be applied to transactions between a bank and its subsidiary, just as they apply to affiliate transactions, are strong additional protections.

The principle of functional regulation, also reflected in our proposal and the House Banking Committee bill, works to assure that insurance and securities regulators will safeguard the interests that they are required to address, even as the Federal Reserve, as the holding company regulator, and the supervisory agencies that have jurisdiction over depository institutions, continue to safeguard the interests of the entities under their jurisdictions.

VII. Conclusion

In conclusion, we do not believe that the proposed mergers create a need for responsive action by Congress. We continue to support Financial Modernization legislation that is free from the significant shortcomings we have noted in the most recent version of H.R. 10, however, and we think it is important for Congress and the regulators to carefully monitor trends in bank merger and acquisition activity to make assure that the banking system remains truly competitive and fully responsive to the needs of consumers, small businesses and communities.

* * *

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

Remarks as Prepared for Delivery
April 28, 1998

SECRETARY ROBERT E. RUBIN
FOREIGN POLICY ASSOCIATION

It is a pleasure to speak with you this evening and I am honored to accept an award from such a distinguished group which focuses on the broad range of the nation's foreign policy concerns. By honoring me, you honor President Clinton's entire national security and economic policy team, as well as the career men and women in the White House, the Treasury Department and throughout the government with whom I've had the privilege of working the past five years. Most importantly, you honor President Clinton, who, in this period of new challenges in foreign policy, has brought to these challenges a deep understanding that we live in a global economy and that our economic well-being depends on strong U.S. leadership and engagement in the global economy. I well remember at the time of the Mexico crisis, I went to the Oval Office to tell the President that the Federal Reserve Board and Treasury felt that Mexico was on the verge of likely default. At the same time, I told him that a recent poll showed that 80 percent of the American public did not want us to provide help to Mexico. He saw that default in Mexico would not only profoundly affect Mexico, but would also profoundly affect our national security and economic interests. So the President said that this is something we have to do, let's go ahead and do it.

Having said that, however, I am deeply concerned -- and I know the President shares this concern -- that public support for forward looking international economic policies may be waning at a time when this country's economic, national security and geopolitical interests require just the opposite. We have all seen the signs over the past few years of a creeping tendency toward turning inward in America, and at times, even a rejection of the reality that what is happening in the rest of the world affects us. As I speak tonight, for example, the United States lacks fast track trading authority, and our trading partners are now moving forward with new trade agreements without us; we have failed to pay our arrears to the United Nations -- and if we fail to pay by the end of the year, we will lose our vote in the General Assembly; and we have failed to approve funding for the International Monetary Fund, at a time when a sufficiently funded IMF to deal with potential crises is critical to our economic and national security interests and the rest of the world is waiting to fund once we do.

RR-2406

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

Tonight, I want to speak about the importance of building support for forward-looking international policies. Let me start by placing this discussion in the context of the end of the Cold War and the emergence of the global economy and global financial markets.

With the end of the Cold War, the foreign policy consensus lost its centerpiece. In the wake of that transformation, there have been two significant -- and related -- developments I would particularly like to discuss this evening. First, there has been an increased focus on international economic policy as a result of the globalization of the economy. At the same time, there has been an erosion of the traditional base of support for international economic engagement, and, at the same time, a re-ignition of one historical strain in American thought, a rejection of the outside world.

Over the last twenty-five years, we have seen the rapid evolution of the global economy and global financial markets. A quarter century ago, imports plus exports equaled 15 percent of our economy. Today, they equal 30 percent. Large U.S. corporations once viewed themselves as American companies with a few offices abroad. Now they see themselves as global corporations headquartered in the United States. Vast international flows of trade, capital, information and technology have sped the world's economies toward integration.

Perhaps the changes have been the greatest in developing countries. Twenty-five years ago, the flow of aid to developing countries was much greater than private capital flows. Today, after so many developing countries have embraced market reforms, the annual private flows of capital to developing countries around the world are more than seven times larger than official flows. In 1996, more than $250 billion in private capital flowed to emerging markets -- compared to roughly $20 billion ten years ago. This has helped lift millions of people out of poverty in the developing world and turned these countries into important participants in the global economy; for example, they now absorb more than 40 percent of our country's exports. That is why, in my tenure as Treasury Secretary, I've visited a whole host of developing and transitional countries, including Vietnam, Brazil, Ukraine, the Philippines, India, and China, and this summer I will visit Africa -- countries and regions far from the traditional focus of Treasury Secretaries.

This new era of the global economy and global financial markets has brought tremendous benefits for U.S. workers, farmers and businesses. Millions of Americans owe their jobs directly or indirectly to trade, and all of us benefit through the lower prices and greater choice that international competition fosters. It is no exaggeration to say that our economic well-being is inextricably linked to the rest of the world.

But with the opportunities and benefits, have come new challenges and risks. How effectively we meet these challenges will have an enormous impact on support for forward-looking international policies and our economic well-being in the years and decades ahead. Let me focus on three critical challenges.

First is the challenge of greatly broadening participation in the benefits of the global economy. Global financial integration benefits the great majority of Americans, but one of the concerns often expressed -- and it is a concern that I share -- is this: in the United States, and other industrialized countries, those who are well-equipped to compete in the global economy are doing better and better, and those who are not so well-equipped risk falling further and further behind. Dynamism in the global economy does fuel rapid change, and that change benefits the vast preponderance of workers, farmers and businesses. But it also can create dislocations, although I think it is worth observing that technology contributes far more to dislocations than trade.

Looking at the developing world, despite vast global economic growth over the past decade, over half the people of the world still live in poverty and that is a problem not only for the countries with high poverty rates but for all of us. The developing countries are our markets for the future, and their economic well-being promotes our well-being. Moreover, social instability, disease, and environmental degradation in those countries can affect us.

The response to all of this ought not to be to turn inward, or to dismantle the global economy that has benefited so many. The response is for the United States -- and all nations -- to make it easier for those who are dislocated to re-enter the economy successfully; to focus on education and training to equip citizens with the tools to prosper in the global economy; to build social safety nets to protect the people who would otherwise be left behind; to work for broad implementation of core labor standards throughout the globe; and to promote good governance, democracy and human rights. The benefits of the global economy will only be realized if we and all other nations build broad-based support at home for forward-looking international economic policies. Garnering that support would be greatly enhanced if these benefits are more broadly shared.

A second critical challenge is to strengthen the architecture of the international financial markets to help prevent financial crises, or better manage them should they occur. Fifty years ago, foreign policy experts met at Bretton Woods and devised the architecture of the international financial system. That architecture has served us well for over a half century, but it needs updating in an age of a vast and complex international financial system. We must make the architecture as modern as the markets.

The need to update the architecture has been brought home most recently by the financial crisis in Asia. As you well know, by doing everything sensible to help these Asian countries get back on track we support our exports to the region and help strengthen their currencies. This, in turn, helps the competitiveness of our goods in world markets and reduces the risk that financial instability will spread to other developing countries. It also lessens the chance of contagion, which would compound all these problems. That is why the United States has exercised very strong leadership throughout this situation towards helping resolve the Asian crises.

Even before the turmoil in Asia, the United States and the international community had been working to strengthen the international financial architecture. We began this effort four years ago at the Naples G-7 meeting and we launched the first steps the following year at the summit in

Halifax. These issues are very complex -- intellectually and politically. Unlike the Bretton Woods institutions, which were essentially put in place at one time, I believe what will happen here will be that reforms will take place in pieces over an extended period of time.

Our approach has focused on three areas:

First, providing better information through improved disclosure and transparency. This is partly a problem of making useful information available, and partly a problem of investors using the information wisely, and analyzing risk better. In Korea, we were surprised by how little risk assessment investors and creditors had done.

Our second area of focus is on building strong national financial sectors. A common element amongst the countries involved in the crisis in Asia -- and, for that matter, in virtually all countries experiencing financial crises around the world -- is a badly flawed domestic financial sector.

Our third area of focus is to work to ensure that the private sector more fully bears the consequences of its credit and investment decisions, including in periods of crisis. In today's world, where trillions of dollars flow through international markets every day, there is simply not going to be enough international assistance for the crises that could take place. There is also a risk associated with official financing which economists call "moral hazard:" that providing such assistance shields creditors and investors from the consequences of their actions and sows the seeds of futures crises. Some protection of creditors may result as a by-product of the overarching objective of restoring financial stability, but this protection should be kept to the minimum possible.

While we are focusing on strengthening the architecture for the longer term, it is absolutely imperative that IMF resources now be sufficient to deal with new crises should they occur. In fact, IMF resources are at historic lows. While the probability of the crisis worsening or spreading or of a new major crisis is low, the potential impact on our economy of any significant crisis is simply too great to risk not having the capacity to respond effectively. It is critical that Congress approve the President's request for IMF funding as quickly as possible.

The third and final challenge we face is to rebuild the consensus about the critical importance of U.S. leadership and engagement in the world to the national security and the economic well-being of the American people. This challenge has not been met.

In 1947, George Marshall gave a speech at Harvard proposing the plan that would bear his name to help rebuild Europe. He said, "An essential part of any successful action on the part of the United States is an 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." Afterwards, President Truman, 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.

We need a similar focus today. There needs to be a redoubled effort by all of us -- public sector officials, the business community, foreign policy experts -- to communicate with the American public about the dynamics of the new global economy and the importance of U.S. leadership in the global economy to the economic well being of the American people.

A poll once showed that Americans, when asked what we spend on foreign aid, said fifteen percent of the budget. When asked what we should spend, they said five percent. We actually spend a little over one percent of our budget on these aid programs, including our contributions to the international financial institutions and the UN. Unless there is broad based public understanding of the importance to U.S. interests of strong U.S. leadership in the global economy, we will fail to support the UN and we will lose our vote; we will fail to support the IMF, and be more vulnerable to economic crises; and without fast track, we will stand by as the rest of the world moves forward and liberalizes trade, with us on the outside of the tent, rather than the inside. All of this has enormous consequences to our economic well-being and our national security. That's why it's so critical to develop broad public understanding of global interdependence and the importance of U.S. leadership to our interests-- and that is where all of you -- individually and institutionally -- have a critical role to play.

The members of the Foreign Policy Association have contributed enormously to the conduct of American foreign policy by the focus, thought and seriousness it has brought to the subject. But in the world today, your role has never been more important -- as individuals, in the businesses and firms for which you work, and as an organization -- in developing public support for forward looking foreign policy.

Our success in meeting the challenges I've discussed this evening -- and again, let me emphasize, the overarching challenge is to promote public support for global leadership -- is critical to our country's economic well-being for years and decades to come. As this century draws to a close, it offers a very clear lesson Withdrawal from international affairs cannot work and engagement in international affairs leads to prosperity. Thank you very much.

-30-

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

EMBARGOED UNTIL 11 A.M. EDT
Text as Prepared for Delivery
April 30, 1998

TREASURY DEPUTY SECRETARY LAWRENCE H. SUMMERS
SENATE JUDICIARY COMMITTEE

Thank you, Mr. Chairman. I am pleased to be joined this morning by the Director of the Bureau of Alcohol, Tobacco and Firearms, John Magaw and by the Acting Deputy Commissioner of Customs for International Affairs, Doug Browning. We are pleased to have this opportunity to discuss administrative and enforcement issues arising from the implementation of new tobacco legislation, particularly those issues related to controlling illegal domestic diversion and cross-border smuggling of tobacco products.

As you know, the prospect of comprehensive tobacco legislation is an issue of enormous consequence to the health and economic well-being of the American people. Comprehensive tobacco legislation such as Senator McCain's bill would stop 3 million teens from smoking over the next five years, prevent approximately one million premature deaths, and reduce the costs that smoking imposes on our economy by almost $80 billion in the long run. The Department of the Treasury and the Administration support the efforts of your Committee and others in Congress to protect America's children from the deadly threat of smoking.

In addition, the Administration shares your interest in assuring that the enactment of tobacco legislation does not result in either a domestic black market or smuggling of tobacco products into the United States. We believe that it is essential that comprehensive tobacco legislation contain provisions that will minimize the diversion of cigarettes from legitimate domestic channels of distribution and the smuggling of cigarettes into the United States from abroad.

It is not possible to reach definitive conclusions about the risks of smuggling given the wide range of changes contemplated by comprehensive tobacco legislation. Incentives to smuggle may well be sensitive to details of tobacco legislation, including price changes, the way

RR-2408

in which assessments are levied and other specifics. Nonetheless, the Treasury Department believes that the creation of a sound regulatory system -- one that will close the distribution chain for tobacco products -- will ensure that the diversion and smuggling of tobacco can be effectively controlled and will not defeat the purposes of comprehensive tobacco legislation.

By closing the distribution chain for tobacco products, we will be able to ensure that these products flow through legitimate channels and effectively police any leakages that do take place. The Treasury Department already licenses tobacco manufacturers and export bonded warehouses in connection with collecting tobacco excise taxes. We believe that such licensing should be extended to the other entities in the upper end of the tobacco distribution chain -- wholesalers, exporters, importers and distributors. We are comfortable with a system that places primary responsibility for licensing retailers on state governments, as provided in Senator McCain's bill. Under this system, tobacco products would move through legitimate channels. Most importantly, such channels would not be open to America's youth.

An effective system must include the following elements:

- **First**, as I have described above, all entities in the distribution chain for tobacco products -- manufacturers, wholesalers, exporters, importers, distributors and retailers -- should be required to hold a license or a permit. Licensing of retailers could be done at the state level. Licenses would be issued based on certain clearly specified criteria and could be revoked or suspended for certain specified violations. Those conducting business without a license would be subject to penalties. Licensed entities should only be authorized to sell tobacco products to other licensed entities. The sale or distribution to any entity that is unlicensed would be unlawful.

- **Second**, legislation should require the marking, branding and identification of packages of tobacco products intended for domestic distribution and for export so that they may not be diverted or smuggled in circumvention of the legitimate channels of distribution.

- **Third**, any regulatory proposal should include penalty and administrative provisions that will allow for effective, efficient and uniform enforcement of controls over distribution.

A regulatory scheme for tobacco products such as that I just described would be similar to the way the Federal Government has effectively regulated alcoholic beverages for over sixty years. The system in place has allowed for effective commerce in alcoholic beverages while effectively curtailing trafficking in illicit, non-tax paid products. In addition, all states currently regulate their alcohol retailers.

Current laws regulating tobacco are aimed at collecting the Federal excise tax and assisting states in their efforts to collect excise taxes imposed on certain tobacco products, not at regulating the distribution of tobacco products and preventing smuggling. For example, the Contraband Cigarette Trafficking Act, or CCTA, was designed solely to assist states in enforcing their tax laws. It does not address or ensure a closed national distribution system and was only intended to proscribe domestic diversion as it applies to state taxes. The CCTA does not address cross-border smuggling, and it applies only to cigarettes, and not to any other tobacco products.

With the necessary regulatory provisions in place to deal with potential smuggling, we do not expect a large-scale smuggling problem for several reasons. First, the "closed" distribution scheme I just described would limit drastically smugglers' ability to enter products into a legitimate distribution channel. Potential black marketeers will not be able to move products through legitimate wholesalers or distributors. Nor will they be able to sell products to retail consumers at the local convenience stores or other licensed retail outlets. Instead, without a way to place contraband products in the market legally, smugglers would have to sell cigarettes outside channels of legitimate distribution. This would be a risky proposition and one we do not believe will represent a significant problem. Second, U.S. cigarette manufacturers would have great incentives not to become complicit in any smuggling operation, as they would encounter enormous legal risks (such as the possibility of losing their license or, as the McCain bill provides, losing their cap on liability risk) and public opprobrium. Indeed, it is hard to imagine that large scale smuggling could occur without the manufacturers' knowledge. Third, the U.S. Customs Service has the expertise and the experience to deal with imported contraband products and has already made a substantial investment in the currently planned introduction of non-intrusive inspection systems and other equipment needed to detect smuggling of contraband. The organic nature of tobacco and the distinctive shape of cigarettes makes them readily detectable by equipment that Customs currently has in place.

Some have cited current levels of interstate smuggling as a reason why comprehensive tobacco legislation such as Senator McCain's bill will lead to wide-scale smuggling. Such arguments fail to account for the fundamental difference between interstate diversion and cross-border smuggling. Commerce between states is not controlled the way it is across the United States' international borders. The Customs Service simply does not monitor the movement of products across state borders, while it does effectively monitor our international borders. More importantly, the current levels of interstate smuggling exist without having in place a closed distribution system like the one I described earlier. If anything, such a system would be expected to have the collateral benefit of substantially reducing existing interstate diversion of tobacco products.

The Canadian experience is also frequently highlighted by those who predict the emergence of a large black market. There are several reasons to believe, however, that the Canadian experience is not an appropriate predictor of what would occur if tobacco legislation such as that supported by the Administration were to become law.

First, the size of the Canadian population as well as its concentration along the border with the United States, makes the Canadian example not particularly instructive for the United States. Because of its smaller population, the total number of cigarettes sold in Canada is only one-tenth as large as the number sold in the U.S., so small amounts of smuggling have a noticeable impact on their tobacco market and would have none on ours. That is, it would take ten times as much smuggling by volume to have an equivalent proportional effect on the U.S. market for tobacco products. Moreover, smuggling became a problem in Canada because of the ease of access to alternative markets. Eighty percent of the Canadian population lives within a two-hour drive of the U.S. border, placing it within easy reach of smugglers transporting cigarettes from the United States. The U.S. population is more dispersed, making the logistics of a nationwide black market in smuggled cigarettes more complex and expensive for organized smugglers. The dispersal of the U.S. population also means that a U.S. resident is less likely than a Canadian resident to be able to cross the border routinely for casual cigarette smuggling.

Secondly, and most importantly, Canada did not have in place the type of effective licensing and enforcement regime that is advocated by the Administration. For example, Canada did not mark its cigarette packaging with "For Export Only" labels until after the smuggling problem of 1992-93. Canadian law enforcement had very few personnel devoted to tax evasion. The vast majority of enforcement with respect to Canadian taxes was done at the provincial level and there was little or no coordinated enforcement effort at the national or inter-provincial levels. In addition, Canada does not license the distribution chain with respect to tobacco products, with the exception of manufacturers. Finally, Canada's laws on tax evasion did not contain strong penalties and there were inadequate resources to enforce these laws.

We are confident that a proper regulatory enforcement system will minimize the diversion of tobacco products from legitimate channels and the development of cross-border smuggling. Such a system would closely parallel the regime that has been in place for the regulation of alcoholic beverages for more than sixty years. We look forward to working with you and your Committee, as well as other Committees in Congress, to fashion such a regulatory system.

Thank you, Mr. Chairman.

-30-

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
April 29, 1998

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 5-YEAR NOTES

Interest Rate:	5 3/4%	Issue Date:	April 30, 1998
Series:	F-2003	Dated Date:	April 30, 1998
CUSIP No:	9128274D1	Maturity Date:	April 30, 2003
STRIPS Minimum:	$800,000		

High Yield: 5.795% Price: 99.807

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 17%.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 25,870,035	$ 10,686,950
Noncompetitive	313,545	313,545
PUBLIC SUBTOTAL	26,183,580	11,000,495
Federal Reserve	1,010,000	1,010,000
Foreign Official Inst.	550,000	550,000
TOTAL	$ 27,743,580	$ 12,560,495

Median yield 5.770%: 50% of the amount of accepted competitive tenders was tendered at or below that rate.

Low yield 5.710%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

RR-2409

2949 2221 10
10/06/98 MAB
INFORMATION CONSERVATION, INC.

TREASURY DEPARTMENT LIBRARY

TREASURY DEPARTMENT LIBRARY

U.S. TREASURY LIBRARY
1 0087961