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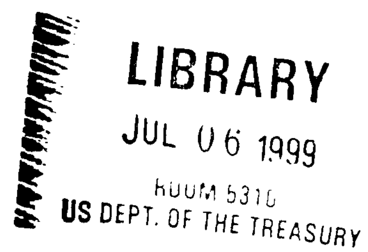
Department of the Treasury

PRESS RELEASES



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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
Text as Prepared for Delivery
May 1, 1998

John D. Hawke, Jr.
Under Secretary of the Treasury to the
National Association of Affordable Housing Lenders
Miami, Florida

It is a pleasure to be with you today. Let me begin by thanking Judy Kennedy and Joe Flatley of NAAHL for inviting me to speak today, and more importantly, for their and your continued leadership toward a goal that I believe -- and that I know Treasury Secretary Rubin and President Clinton 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.

I'd like to start by discussing the economy as a whole, because the foundation for creating real economic opportunity for all is a strong national economy. 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. The President put our fiscal house in order, which has been central to low interest rates, low inflation, unemployment now down to 4.6 percent, and strong business investment. The economy has created 15 million new jobs over the last 5 years, and real median wages have begun to rise.

Unemployment in the fifty largest cities is down to 6.5 percent, from 9 percent in 1992. And crime is down substantially. But we know all too well that there is still much to be done to advance the poorest segments of our economy. For example, recently, 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.

RR-2410

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

We can, and we must, do more to ensure that our economy works for all Americans. The key is to identify strategies and replicate them on a national scale and on a sustained basis. 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.
- Second, is investing in people, through the Earned Income Tax Credit; through education and training, from pre-school to adult; and through improving the "job readiness" of the least advantaged and connecting them to the workforce.
- And third, which I will focus on today, is increasing access to private sector capital and other measures to restore healthy market forces in the inner cities and distressed rural 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 capital to create housing and jobs in the inner city and in rural communities.

At Treasury, we have been very focused on these problems. We have enacted new incentives for investments in the inner cities, from our brownfields tax incentive to encourage the revitalization of environmentally contaminated properties in distressed areas, to new rounds of Empowerment Zones, fostering comprehensive approaches to a community's problems. We have enacted incentives to help firms hire low income workers who have a difficult time in the labor markets. And we have made permanent the low income housing tax credit, helping to create 90,000 units of affordable housing every year. This year, the President has proposed expanding the credit by 40%, which would mean an additional 180,000 units of affordable housing over the next five years alone.

And I think one of the most significant things we've done is help make our financial system work better for communities long left behind. At the core of this approach, we have strengthened the Community Reinvestment Act 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. Since taking office we have repeatedly fought off efforts to undermine CRA.

Now in its 20th year, CRA, in my view, is working. In 1996 alone, large commercial banks made $18 billion in community development loans. 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 show 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 market grew only 18 percent. This data shows real progress, but much work still needs to be done.

Going forward, nonprofit groups report that there have now been $397 billion in loan pledges to low income areas since CRA was enacted 20 years ago. Over the past five years, loan pledges have totaled $355 billion, 89 percent of all loan pledges made since 1977. Now, that's pledges, and not loans yet made, so you have a lot of work to do to be sure those pledges become reality. Having said that, progress has been remarkable, and you deserve congratulations for your hard work in helping to make this possible.

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. Mainstream banks across the country have developed -- and made money from -- similar initiatives to serve low income markets.

With all this progress, as we move to modernize the nation's financial system, we need to make sure that communities are not left behind. Financial modernization will mean enormous benefits for consumers. We estimate that consumers spend $300 billion a year on financial services, and it is clear that even modest gains in efficiency that can come about through the elimination of barriers to competition can have a significant effect on consumer costs.

While we have strongly supported Financial Modernization legislation, we have been very disturbed by some of the amendments that have been grafted on to the bill as it has moved forward. In particular, the bill mounts a frontal attack on the national banking system. It shuts down innovative efforts that the OCC has made to make national banks more competitive, it discriminates against national banks as compared to state banks, it fails to relieve archaic limitations on the ability of national banks to sell insurance, which do not apply to state banks, and it would, in our view, significantly diminish the role of the elected branch of government in financial institutions policy. In particular, we think this formulation of the legislation would diminish the effectiveness of CRA enforcement, by disabling national banks from participating in new financial activities through their own subsidiaries, and forcing all new activities into Federal Reserve-regulated holding company affiliates, where they are beyond the scope of the OCC's ability to judge what a bank's CRA commitments should be. The Secretary has communicated to the House Leadership that he would recommend a veto of the bill if it were enacted in this form. You should have a stake in these issues.

Let me turn now to the CDFI Fund, a key focus for us at Treasury, and, in many respects, a complement to CRA. Inevitably, there are things that banks will have trouble doing. This is especially true in new markets, or forgotten communities where social returns

can be particularly large relative to private ones. 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 communities. Often, CDFIs are the pioneers in their marketplaces, making the leading edge investments based on superior local knowledge, providing technical assistance to borrowers, 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. Banks have partnered with CDFIs, and 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.

The Fund has awarded over $75 million to 80 CDFIs and intermediaries around the country in its first two rounds of awards, and under the BEA program, 92 insured depository institutions have received over $30 million in awards for their activities. This year, the third round of the BEA program will provide another $25 million in incentives to banks and thrifts who increase their investments in distressed communities and in CDFIs; 104 banks have applied, seeking $60 million in funding. The Fund has launched its third round of CDFI awards, for approximately $40 million, with applications due June 12th. And the Fund has launched a special awards round focused on increasing the capacity of CDFIs with the greatest needs for technical assistance.

As with any new organization there have been some growing pains at CDFI. 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 you know well -- and 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 strong program, and investments that have begun to flow to communities and make a difference in people's lives.

Let me give you just one example. Recently, I visited a CDFI in North Carolina -- Self Help, which operates a credit union and a venture capital fund. I saw first hand how a young man who had been running a marginal fresh fish business, was able to get a $1,000 micro-loan from Self Help to buy a fish fryer and thereby to offer a great fast food menu to his customers. His business began to grow, and now he employs two full-time and two part-time helpers. With his first profits he was able to expand by buying another frier and a stove, and

now this determined young man wants to borrow $15,000 to buy a refrigerated truck, so he can drive to the shore and pick up his own fish. We sometimes forget how much difference even a very small loan can make for a small business entrepreneur, and that's one of the things that CDFIs can do very well.

I also had the opportunity to visit a distressed neighborhood in Durham, where Self Help was rehabilitating rental properties and selling them back to former tenants. I spoke to a minister there who told me that just a few years ago, no one dared to sit on their front steps or go down the street to the store because of all the drug trafficking and violence there. But with funding from Self-Help and other sources, the neighborhood is now beginning to turn around. Houses are being repaired, and families have been given the opportunity to own their own homes for the first time. The increased home ownership is not only benefitting those families, but it has made the neighborhood safer, and has encouraged families on the block -- now homeowners - to become more involved in their community.

Now we must build on these successes and others like them. 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. We are also seeking 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. These state programs have been enormously successful in reaching new small business borrowers safely and soundly. I think this new CDFI program will be an exciting new initiative for communities. We will be pushing forward with both appropriations for CDFI and reauthorization in the weeks ahead. We look forward to working with Congress to pass these bills on a bipartisan basis.

In conclusion, let me return to where I begin. As a nation, we can never hope to reach our full economic potential unless we succeed in bringing all Americans into the economic mainstream. There are programs that work all around the country. What we need to do is ensure that those programs are replicated on a national scale, commensurate with the problems. This can be done, and it must be done. Thank you very much.

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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
May 04, 1998

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Term:	91-Day Bill
Issue Date:	May 07, 1998
Maturity Date:	August 06, 1998
CUSIP Number:	912795AE1

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate 1/	Price
Low	4.980%	5.114%	98.741
High	4.995%	5.131%	98.737
Average	4.990%	5.122%	98.739

Tenders at the high discount rate were allotted 26%.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 38,305,863	$ 4,208,601
Noncompetitive	1,416,032	1,416,032
PUBLIC SUBTOTAL	39,721,895	5,624,633
Federal Reserve	3,668,010	3,668,010
Foreign Official Inst.		
Refunded Maturing	135,210	135,210
Additional Amounts	49,390	49,390
TOTAL	$ 43,574,505	$ 9,477,243

1/ Equivalent coupon-issue yield.

RR-2411

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
May 04, 1998

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Term:	182-Day Bill
Issue Date:	May 07, 1998
Maturity Date:	November 05, 1998
CUSIP Number:	912795AQ4

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate 1/	Price
Low	5.100%	5.307%	97.422
High	5.110%	5.318%	97.417
Average	5.110%	5.318%	97.417

Tenders at the high discount rate were allotted 68%.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 28,042,907	$ 4,623,472
Noncompetitive	1,214,859	1,214,859
PUBLIC SUBTOTAL	29,257,766	5,838,331
Federal Reserve	3,980,000	3,980,000
Foreign Official Inst		
Refunded Maturing	1,461,135	1,461,135
Additional Amounts	532,865	532,865
TOTAL	$ 35,231,766	$ 11,812,331

1/ Equivalent coupon-issue yield.

RR-2412

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

EMBARGOED UNTIL 3:00PM
May 4, 1998

CONTACT: Paul Elliott
(202) 622-2016

TREASURY ANNOUNCES MARKET BORROWING ESTIMATES

The Treasury Department announced on Monday that its net market borrowing for the April - June 1998 quarter is estimated to be a pay down of $110 billion with a cash balance of $45 billion on June 30. The Treasury also announced that its net market borrowing for the July - September 1998 quarter is estimated to be in the range of $0 billion to $5 billion with a cash balance of $40 billion on September 30, 1998.

In the quarterly announcement of its borrowing needs on February 2, 1998, the Treasury estimated net market borrowing for the April - June quarter to be a pay down in the range of $75 billion to $80 billion with a cash balance of $35 billion on June 30. The current estimate largely reflects an improvement in budget receipts and an increase in net issuances of nonmarketable State and Local Government Series (SLGS) securities.

Actual net market borrowing for the January - March 1998 quarter was $10.3 billion with an end-of-quarter cash balance of $27.6 billion. On February 2, the Treasury estimated net market borrowing for the January - March quarter to be $10 billion with a cash balance of $20 billion on March 31. The higher end-of-quarter cash balance was primarily the result of lower budget outlays and larger net issuances of SLGS.

The regular quarterly press conference will be held at 9:00AM on Wednesday, May 6, 1998.

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RR-2413

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

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

When you were here three months ago, real growth was running close to 4 percent and inflation was about 1-1/2 percent. The Asian situation showed signs of stabilizing and adverse impacts on the U.S. economy were fairly hard to find. Now three months later, there are similarities and there are also emerging differences.

Let's take the domestic side of the equation first. Real growth in the fourth quarter and in the first quarter were similar in overall magnitude. The fourth quarter is now carried on the books at 3.7 percent annual rate, although we may have been quoting an advance estimate of 4.3 percent when you were here. Those things happen. Suppose we split the difference and call it 4 percent for the fourth quarter. That, in turn, is very close to the 4.2 percent advance estimate for the first quarter which was released last week. Not much is lost by calling this a 4 percent quarter, too.

There is a world of difference between the two quarters in the composition of that 4 percent growth. This quarter looks a lot better. In the fourth quarter of last year, final sales to domestic purchasers slowed abruptly to growth of 2 percent annual rate and business capital investment actually moved into the negative column.

- The fourth quarter's 4 percent real growth was only achieved through some piling up of inventories and a sizable improvement in net exports, widely recognized at the time as reflecting difficulties of seasonal adjustment.

- The first quarter's real growth is much more solidly based. Final sales to domestic purchasers rose at a 6 percent annual rate with business investment posting a large gain. Inventories were a relatively neutral influence and the 4 percent real growth in the first quarter was achieved despite roughly a 2 percentage point subtraction from net exports, some of which was a reversal of the fourth-quarter seasonal effect.

RR-2414

An improving pattern between the fourth and first quarters is also evident in inflation performance.

- The GDP chain-weighted price index was up at an annual rate of only 0.9 percent in the first quarter, down from 1.4 percent in the fourth quarter. The increase over the last year was also 1.4 percent -- the smallest such four-quarter change since 1964.

- The behavior of an alternative measure of prices was even more striking. The price index for gross domestic purchases excludes exports and includes imports, hence reflecting the prices paid by U.S. consumers, businesses, and the public sector. This index was *flat* in the first quarter for the first time since 1954.

- Part of this return to zero inflation was due to falling oil prices which may not last. But, another part can probably be attributed to foreign competition and global disinflation, which may even intensify as Asian adjustments proceed. In the past year, the prices of our nonpetroleum goods imports have fallen by more than 4 percent.

The latest reading on the employment cost index for the three months ending in March was also relatively encouraging in the inflation context. The seasonally adjusted quarterly index for total compensation rose by only 0.7 percent, or a modest 2.7 percent annual rate and the smallest quarterly increase in a year. The only reservation would be that quarterly changes in the series can be volatile and that the first quarter result may be exaggerating the extent of improvement. By most other measures, labor markets are extremely tight.

Still, it is impressive that after seven full years of expansion, with the unemployment rate at or below 5 percent for the past twelve months and real GDP growth close to 4 percent over the past six quarters, inflationary pressures actually seem to have eased.

The emerging difference in the current situation is that adverse effects on real activity in the U. S. are beginning to be felt from Asia. Up to this point, the chief impact had come in the form of lower inflation and lower interest rates, both of which considered in isolation could certainly be viewed as desirable developments.

The impact of the East Asian crisis is now beginning to show through in the U. S. trade data, in the form of a reduction in U. S. exports. From October through February, U. S. merchandise exports fell by nearly 5 percent, most of it recently, with the major East Asian countries accounting for 80 percent of the drop. These results are approximate and based on unofficial seasonal adjustment.

- U. S. exports to the area are likely to fall further in most cases, not only because of income compression in Asia, but also because exchange rate movements have made U. S. goods relatively expensive and a further loss of market share is likely.

There has not been much sign yet in the published data of increased U. S. imports from Asian countries. If such an effect were to materialize, and it seems inevitable in the course of a successful Asian adjustment, it could imply some additional dampening influence on the growth of U. S. GDP.

Looking out to the future, slower U. S. growth seems sure to emerge. Continued growth at a 4 percent rate hardly seems feasible, even on the most favorable assumptions for productivity performance. But no drastic shift in the policy settings would seem to be required. The gradual emergence of restraint through the medium of a wider net export deficit would appear to be a highly probable development during the balance of the year.

Some recent indicators already seem to be pointing in that direction. Unfortunately, in this business, some indicators can usually be found pointing in any direction. But, it may be significant that industrial production has flattened out recently, growing at only 1 percent annual rate in the first quarter; and that the latest survey of the National Association of Purchasing Management reported a slower rate of growth in manufacturing in April. These might be early signs of the return to a more moderate pace of growth.

All things considered, growth near the economy's trend potential of 2-1/2 percent or so seems the most likely outcome going forward, along with the continuation of relatively low inflation and low interest rates.

That is a summary of recent economic developments and the near term economic outlook.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED UNTIL 2:30 P.M.
May 5, 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 14, 1998. This offering will result in a paydown for the Treasury of about $1,850 million, as the maturing publicly held weekly bills are outstanding in the amount of $14,857 million.

In addition to the public holdings, Federal Reserve Banks for their own accounts hold $7,169 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 $1,894 million as agents for foreign and international monetary authorities, which may be refunded within the offering amount at the weighted average discount rate of accepted competitive tenders. Additional amounts may be issued for such accounts if the aggregate amount of new bids exceeds the aggregate amount of maturing bills.

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

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

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Attachment

RR-2415

HIGHLIGHTS OF TREASURY OFFERINGS OF WEEKLY BILLS
TO BE ISSUED MAY 14, 1998

May 5, 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 AF 8	912794 5B 6
Auction date	May 11, 1998	May 11, 1998
Issue date	May 14, 1998	May 14, 1998
Maturity date	August 13, 1998	November 12, 1998
Original issue date	February 12, 1998	November 13, 1997
Currently outstanding	$10,846 million	$18,451 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

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EMBARGO TIME WILL BE SET
May 6, 1998

REMARKS BY GARY GENSLER
ASSISTANT SECRETARY FOR FINANCIAL MARKETS
MAY 1998 TREASURY QUARTERLY REFUNDING
PRESS CONFERENCE

Good morning. I am pleased to be with you today. Due to the Clinton Administration's policy of fiscal discipline we now face the challenge of managing a surplus instead of financing a deficit. Adjusting our debt management to this new environment of balanced budgets is an exciting challenge for the Treasury.

I will begin by announcing certain changes to the composition and frequency of our coupon security offerings. I will then announce the terms of the May quarterly refunding. Next, I will review Treasury's market borrowing requirements for the balance of the current calendar quarter and for the July-September quarter. Lastly, I will update you on our plans for inflation-indexed Treasury securities.

I. Changes to Coupon Offerings

The changes to our coupon offerings that we are announcing today help us to achieve the three principal goals of Treasury debt management: (1) sound cash management; (2) lowest cost financing for the taxpayers; and (3) the promotion of efficient capital markets. The changes also help us to advance the related principles of market liquidity, and balanced issuance across the yield curve.

Over the last two years, due to improving fiscal conditions, Treasury has reduced the issue sizes of our various offerings. In particular, the market in privately held Treasury bills has declined in overall size by $130 billion, or 22 percent.
RR-2416

We feel it is appropriate at this time to adjust our issuance cycle and the instruments that we offer, in order to continue to assure large, liquid issues in the coupon sector, and to promote greater liquidity in the short-term bill market. Consistent with this, we wish to (1) limit further contraction of net bill issuances; and (2) focus our coupon offerings around larger, less frequent offerings of benchmark securities.

More specifically, we plan to institute the following two changes:

First, Treasury will discontinue new issues of 3-year notes after the May refunding. This change is consistent with our practice of changing the specific instruments offered by the Treasury in response to market demands and Treasury borrowing needs. The 20-year bonds were discontinued in 1986, the 4-year notes were discontinued in 1991, and the 7-year notes were discontinued in 1993.

Second, we will reduce the frequency of new issues of 5-year notes, shifting to a schedule of quarterly issuances instead of monthly issuances. Thus, the 5-year note will replace the 3-year note in the quarterly refundings, starting in August. The last monthly 5-year note will be issued at the end of June. We expect that the offering size of each new quarterly 5-year note will increase substantially from the recent size of $11 billion.

The two changes announced today will enable us gradually to increase the size of our Treasury bill offerings. The changes should also help to prevent the average life of our marketable debt from increasing significantly as a result of bill auctions being reduced more than coupon auctions. In addition, in light of these changes, we plan to review our auction practices. We will consider extending the use of the single-price auction technique to the 10- and 30-year auctions in the regular quarterly refundings. Treasury has been conducting single-price auctions for 2- and 5-year notes since September 1992 and for inflation-indexed securities since their inception in January 1997.

II. Terms of the Quarterly Refunding

I will now turn to the terms of the quarterly refunding. We are offering $22.0 billion of notes, to refund $25.4 billion of privately held notes maturing on May 15 and to pay down approximately $3.4 billion.

The two securities are:

First, a 3-year note in the amount of $10.0 billion, maturing on May 15, 2001. This note is scheduled to be auctioned on a yield basis at 1:00 p.m. Eastern time on Tuesday, May 12.

Second, a 10-year note in the amount of $12.0 billion. This note is scheduled to be auctioned on a yield basis at 1:00 p.m. Eastern time on Wednesday, May 13.

This is the first time in 20 years that the Treasury has announced an overall net pay down in a quarterly refunding.

III. Expectations for This Quarter and the Next Quarter

I would now like to review our expectations for the rest of this quarter and for the next quarter.

As announced on Monday, May 4, we estimate that we will net redeem $110 billion of marketable securities in the April-June quarter. The estimate assumes a $45 billion cash balance at the end of June. Including the securities announced in this refunding, we have already net redeemed $74.6 billion of marketable securities. (See the attachment for details.)

The tentative auction calendars for May, June, and July are included in the chart package that was distributed today. Short-term cash management bills may be needed to cover the low point in the cash balance in early June.

We estimate that the Treasury will borrow between $0 and $5 billion in marketable securities during the July-September quarter, assuming a $40 billion cash balance on September 30.

IV. Inflation-Indexed Securities

Finally, let me briefly update on our plans for inflation-indexed Treasury securities. Last month, we held our sixth auction of inflation-indexed securities: a new 30-year indexed bond. We were pleased with this auction, and we continue to be pleased with the development of the inflation-indexed market. As has been recommended by the Treasury Borrowing Advisory Committee, we are planning to sell a 30-year indexed bond in July 1998. We expect this will be a reopening of last month's issue. We plan to announce a regular schedule of indexed security issues by the end of this year. In addition, we expect to publish final rules on fungible indexed STRIPS next month.

The August quarterly refunding press conference will be held on Wednesday, August 5, 1998. I would now be happy to answer any questions that you may have.

ATTACHMENT
CASH RAISED

Including the securities announced in this refunding, we have paid down $74.6 billion of cash from sales of marketable securities.

This has been accomplished as follows:

- -- raised $8.4 billion from the 30-year inflation-indexed bonds issued April 15;
- -- paid down $8.8 billion in the 7-year notes that matured April 15;
- -- paid down $5.5 billion in the 2-year notes that were issued April 30;
- -- raised $0 billion in the 5-year notes that were issued April 30;
- -- paid down $11.9 billion in the regular weekly bills including those announced yesterday;
- -- paid down $7.7 billion in the 52-week bills which were issued April 2 and 29;
- -- paid down $45.8 billion of cash management bills that matured on April 16 and April 23; and
- -- paid down $3.4 billion with the notes we are announcing today.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

FOR RELEASE WHEN AUTHORIZED AT PRESS CONFERENCE
May 6, 1998

CONTACT: Office of Financing
202/219-3350

TREASURY MAY QUARTERLY FINANCING

The Treasury will auction $10,000 million of 3-year notes and $12,000 million of 10-year notes to refund $25,401 million of publicly held securities maturing May 15, 1998, and to pay down about $3,400 million.

In addition to the public holdings, Federal Reserve Banks hold $4,990 million of the maturing securities for their own accounts, which may be refunded by issuing additional amounts of the new securities.

The maturing securities held by the public include $1,471 million held by Federal Reserve Banks as agents for foreign and international monetary authorities. Amounts bid for these accounts by Federal Reserve Banks will be added to the offering.

The 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 the notes are given in the attached offering highlights.

oOo

Attachment

RR-2417

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
MAY 1998 QUARTERLY FINANCING

May 6, 1998

Offering Amount	$10,000 million	$12,000 million
Description of Offering:		
Term and type of security	3-year notes	10-year notes
Series	T-2001	C-2008
CUSIP number	912827 4E 9	912827 4F 6
Auction date	May 12, 1998	May 13, 1998
Issue date	May 15, 1998	May 15, 1998
Dated date	May 15, 1998	May 15, 1998
Maturity date	May 15, 2001	May 15, 2008
Interest rate	Determined based on the average of accepted competitive bids	Determined based on the average of accepted competitive bids
Yield	Determined at auction	Determined at auction
Interest payment dates	November 15 and May 15	November 15 and May 15
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 CX 3	912820 CY 1
Due date(s) and CUSIP number(s) for additional TINT(s)	Not applicable	Not applicable

The following rules apply to all securities mentioned above:

Submission of Bids:

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

Competitive bids ....(1) Must be expressed as a yield with three decimals, e.g., 7.123%.
(2) Net long position for each bidder must be reported when the sum of the total bid amount, at all yields, and the net long position is $2 billion or greater.
(3) Net long position must be determined as of one half-hour prior to the closing time for receipt of competitive tenders.

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

Maximum Award ....35% of public offering

Receipt of Tenders:

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

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

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

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR RELEASE AT 1 P.M. EDT
May 6, 1998

"24-7: America's Role in Supporting the Global Economy"
Remarks by Lawrence H. Summers,
Deputy Secretary of the Treasury
Economic Policy Institute
Washington, DC

Thank you. It is an honor to be here to discuss America's role in the new global economy with so many of those who will shape it.

These are remarkable times 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.

Our success is not in question. What is today in question is our ability to invest it well. Trade has accounted for one third of the growth of our economy since 1992, yet the United States lacks fast track authority to open new markets and new opportunities overseas. The International Monetary Fund is working to uphold America's stake in stability and growth to Asia, yet we have failed to approve funding to ensure it is well prepared for the crises of tomorrow. The United Nations is today helping to keep the peace and promote our core interests and values around the world, yet we have not paid it what we owe and face the prospect of even losing our vote in the General Assembly.

I'd like to spend my time today talking about America's preeminent position in the global economy and the responsibilities which come with that position -- both in our international policies and in the policies we pursue at home.

RR-2418

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

I. A Remarkable Moment

The world looks very different than it did at the beginning of this decade, a time when America was said to be in decline. 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. 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.

In short, we are reaping the rewards for sound macroeconomic policies and for working to promote a more open and stable global economy. But as the President has often said, we cannot allow the hum of our growing prosperity to lull us into complacency.

We should not forget that there has been another time in our nation's history when our companies were enjoying unprecedented success at home and abroad; when our elected leaders vowed to shrink government; and when, for all of economy's success, 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 about the importance of outward-looking international policies at a time of enormous change in global affairs.

Investing today's success in a safe and prosperous tomorrow will require leadership on many fronts. Today let me focus on the aspect that is most central to what we do at Treasury and has acquired such prominence in light of events in Asia -- the promotion of a safe and effective global financial market.

II. The Challenge of Stable World Finance

I am convinced that when historians write the history of the last quarter of the twentieth century, 200 years from now, the end of the Soviet Union and the Cold War will be the second story. The first story will be the rise of market institutions across those countries and across Asia. This has created a situation that is unprecedented in human history: where countries where more than 2 billion people live are growing at rates where standards of living doubled in less than a decade, something never seen in the economic history of the United States or any country in Europe.

There are many reasons for this remarkable progress 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 -- 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.

Let me say something that will not surprise you. I believe that Congress needs to support the IMF because a well-funded IMF is critical to promoting the interests of American workers and savers and every American's interest in the spread of market-based democracies around the world. I also believe that meeting our commitments to the IMF maximizes our ability to reform both the IMF and the international monetary system to be more effective at promoting growth and stability. Now let me explain why.

Economists and historians will debate the causes of the Asian financial crisis for a long time. What is clear is that the approach the IMF has taken on behalf of the international community -- conditioning financial support on strong domestic policy measures to restore confidence -- is the right one. If we can today talk more positively about most of the region than we would have thought likely even 1 month ago it is in no small part due to the success of this approach.

To be sure, important policy challenges remain: particularly in light of the uncertain policy environment in Indonesia. But without the support the IMF provides in these situations we would now in all likelihood be dealing with a great deal worse: possible debt moratoria in a number of countries, a generalized withdrawal of capital from the developing world and potentially large consequences for our export industries and our financial markets.

Insurance against the spread of the Asian financial crisis would be reason enough for the United States to support the IMF. But there are others:

- the IMF and sister World Bank programs, not just in Asia but worldwide have achieved more trade liberalization than our bilateral or multilateral negotiation have ever achieved.

- IMF finance and conditions have been the primary external mode of support for the dramatic changes in Russia's economy over the last 5 years, changes that have seen it move from a state dominated hyperinflating economy to an economy with stable money and a predominant of Europe;

- the IMF has further promoted US interests by supporting stabilization in Poland and Central Europe, preventing the spread of the Mexican financial crisis through strong support for Argentina and supporting economic reform in the Former Soviet Union.

Every dollar the United States puts into the IMF leverages four of five dollars from the rest of the world. Yet it is does not cost the taxpayer one cent. And it does not add to the federal deficit.

The IMF is indispensable and cheap at the price. That does not mean we should be entirely satisfied with the IMF as it is. But the IMF will not change, and it most certainly will not change in a way that best promotes our core interests and values, if the United States loses its credibility and voice within the institution by failing to make good on its commitments.

The IMF should be more transparent and accountable and more open in its reaching of agreements with countries. It should allow for external evaluation of its procedures and results. And it should work at ways of sharing the information it has with those in the markets.

The IMF should improve its surveillance techniques to focus more on capital flows and the health of key financial institutions. There is a need for better banking system regulation around the world and more effective attempts to intensify the dialogue with countries that -- like Mexico in 1994 or Thailand in 1997 -- are heading for serious difficulty. Without a strong IMF or something very much like it, it is hard to see how we could go about getting that need fulfilled.

Finally, we need to find mechanisms to bail in investors not bail them out -- so we can 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. Again, we do not have all the answers, but it is very difficult to see how such procedures could operate without an international institution with striking resemblance to the IMF.

The content of IMF programs will be a matter of continuing debate and evolution. But if the United States does not contribute to the IMF, we risk losing the opportunity to help shape its approach to economic policy around the world. In short, not to support the IMF today would be a little like canceling one's life insurance when one is already sick. Like any such decision, it might work out just fine. But at a time when markets in many countries are fragile and looking for confidence to the world's only superpower, it is a gamble we should not take.

III. The Broader Challenges of Integration

There is a lesson in these arguments for the other symbols of our international engagement that I mentioned at the beginning of these remarks.

Consider Fast Track. We have an immense amount to gain from the tide of global integration that has been unleashed in these latter years of the 20th century. But, you might say, we have to be in it to win it. If we want other nations to open their markets -- we must open our own. If we want sensitive regions to stabilize, we must allow them to enter the world trading system. That is why we have helped to complete 240 new trade agreements lowering barriers to American goods since 1993. And that is why we are working to achieve closer integration across the Pacific by reinvigorating APEC, and in our own hemisphere through a Free Trade Area for the Americas.

Without fast track these negotiations can proceed much as the early, critical stages of the negotiations for the Uruguay Round of the GATT proceeded. But there are limits to how long this can continue -- and there are costs.

Every year without "fast-track" we put at risk what might be called the Clinton Corollary to the Monroe Doctrine -- the idea that the United States should be the major trading partner of Latin America. Every year we are without it we raise serious questions about our commitment to leading global efforts to bring trade barriers down and nations together. And make no mistake: every year we are without it we reduce the prospect that the international trading regime would

increasingly reflect the importance of labor rights and environmental values.

Or consider the UN. As National Security Advisor Berger said last week, what we achieve economically through the IMF and other IFIs we have been able to achieve on so many other fronts with the UN: everything from preventing the diversion of nuclear materials and the spread of disease to agreeing international standards to make the skies safer and protect our environment.

The world needs the UN. And the UN needs reform. By common agreement, we have achieved more substantial change at the UN these past five years than in the entire preceding 45 years. And in the bipartisan agreement negotiated last year we have a three-year plan to continue this reform and build a UN fit for the next century. When we put that agreement at risk -- as occurred last week -- we endanger not just the UN's future. We endanger our capacity to shape it in a way that will continue to promote our core interests and serve our deepest values.

I have concentrated here on our international strategy -- on the critical need for the United States to work actively to shape the arrangements and institutions that will, in turn shape the future 21st century global economy. But these efforts are not separable from what we do here at home.

Global capitalism is coming. No government is powerful enough to halt the flow of information and ideas on the Internet, the movement of millions of dollars across markets at the flick of a switch, or travel of millions of the world's people across borders each day.

The question is what kind of global capitalism we want to build. We do not want a global capitalism that puts capital before every other interest and engages every country in a race to the bottom: a bottom in which governments cannot support labor rights and fair taxes and cannot protect the environment.

For it to be the right kind of capitalism we build and the right kind of global economy we see emerging at the dawn of a new century, we need to work internationally to ensure that capital is not the only factor of production that gets a hearing.

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, and within the UN, to ensure that labor and environmental concerns are given due weight 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 initiatives.

But we will also have to ensure that this global economy works well for those at home. Just as the GI Bill of Rights was an integral part of the strategy behind the Marshall Plan, just as our interstate highway system was partly the result of an effort to marshal our Cold War defenses -- we must work to make both real and apparent the connection between our pursuit of stability and prosperity abroad and our pursuit of stability and prosperity for every American.

History teaches that internationalism cannot be a goal pursued by elites for its own sake. We must invest in a network of institutions that can realize the opportunities of this new global era and defeat its threats. And we must invest in policies that will give every American the possibility to prosper from the world thus created. 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 10:00 am EDT
May 7, 1998

JAMES J. FLYZIK
DEPUTY ASSISTANT SECRETARY FOR INFORMATION SYSTEMS
AND CHIEF INFORMATION OFFICER
TESTIMONY BEFORE THE HOUSE WAYS AND MEANS COMMITTEE

Chairwoman Johnson, Representative Coyne, 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 Department of the Treasury has stated that 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 CFO has overall responsibility for the Year 2000 date transition. As Deputy Assistant Secretary (Information Systems) and 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, and these firms are assisting 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 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 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.
RR-2419

Treasury has identified 323 mission critical IT systems and 269 mission critical Non-IT systems. At present, we have renovated 133, or 54.7% of the mission critical IT systems that need to be converted. We can now report 125 out of 323 (38.7%) of the total mission critical IT systems are now Year 2000 compliant.

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 included 186 components. Although we report none of these three Customs mission critical IT systems as completed renovation, testing, or implementation, the fact is that 68.5% of the components within these systems have been renovated, 35.3% have been tested, and 25% have been implemented.

Treasury operates one of the largest enterprise telecommunications networks in the Government. This Treasury Enterprise System includes both local and nationwide telecommunications systems. My office is directly responsible for the Year 2000 compliance of these telecommunications systems.

The Digital Telecommunications System (DTS) is an integrated voice/data local telephone system in over 30 Treasury locations that serves over 30,000 Treasury employees. Treasury has established a phased implementation schedule so that DTS will be Year 2000 compliant by September 1998.

The Treasury Communications System (TCS) is a nationwide data network serving all Treasury bureaus and some Federal agencies (such as Justice). The TCS provides multiple services and is the largest secure, private wide-area network in the U.S. civilian Government. We have established a test laboratory where each component of the TCS network can be tested, both as an independent system, and from an interoperability perspective as each component is interconnected with other components. Treasury is coordinating the Year 2000 issues with the manufacturer of each piece of equipment and software incorporated in the TCS network and expects to be operationally Year 2000 compliant on or before 30 September 1998.

In order to address these challenges, a Year 2000 Telecommunications ACommand 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. To further promote communications 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. In addition, Treasury has engaged a

telecommunications company to perform independent verification and validation (IV&V) of the telecommunications infrastructure with respect to Year 2000 compliance.

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.

In our regulatory and oversight roles, the Office of Thrift Supervision (OTS) and the Office of the Comptroller of the Currency (OCC) are participating on the Federal Financial Institutions Examinations Council (FFIEC) with aggressive programs to audit financial institutions' compliance on Year 2000.

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 third-party versions of these products.

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.

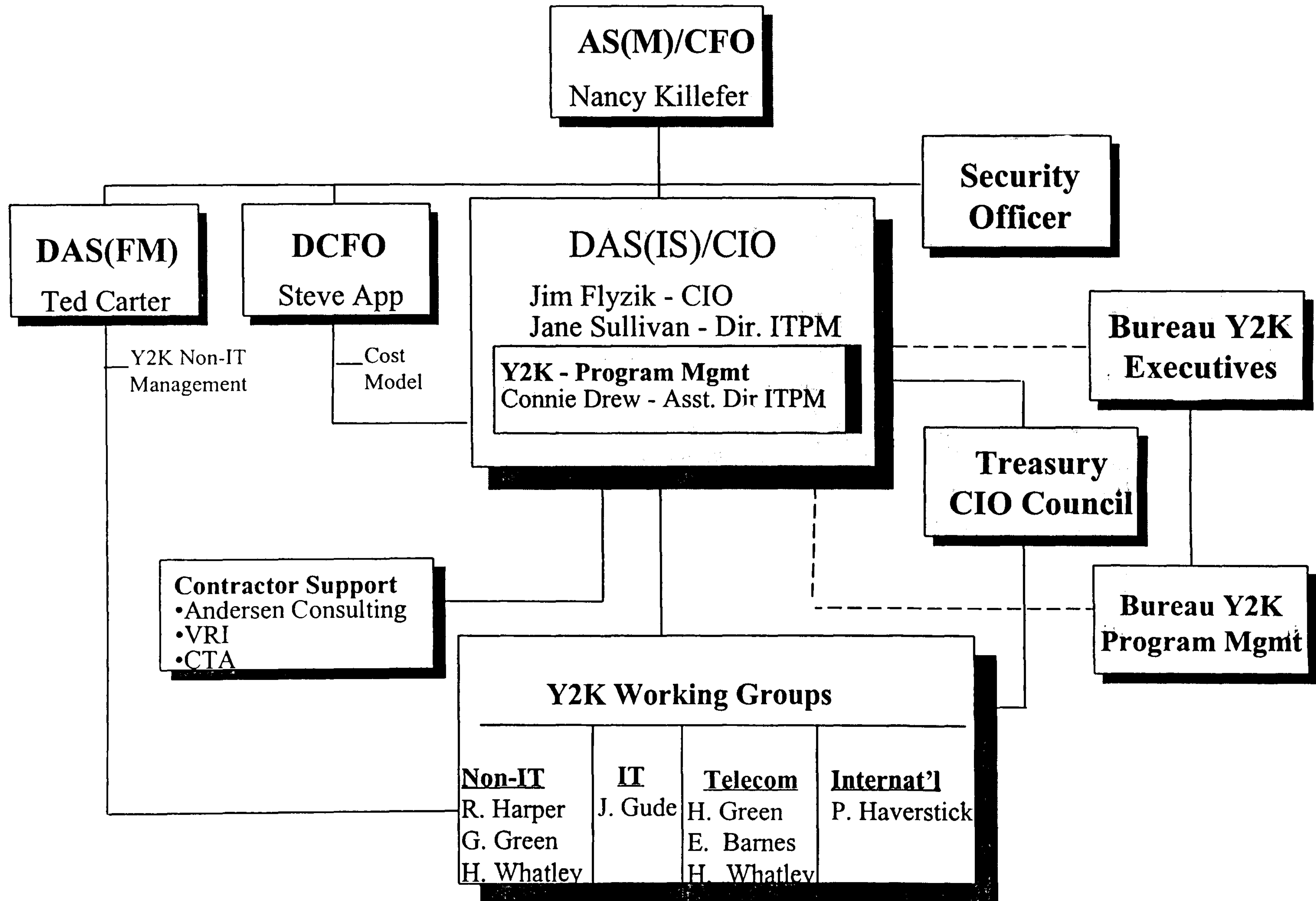
In addition to funding challenges, we must also contend with the increasing rate of attrition within our information systems workforce. Skilled programmers -- especially those with skills in legacy system platforms -- are in strong demand within the private sector, which can pay significantly higher salaries than the Government.

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.

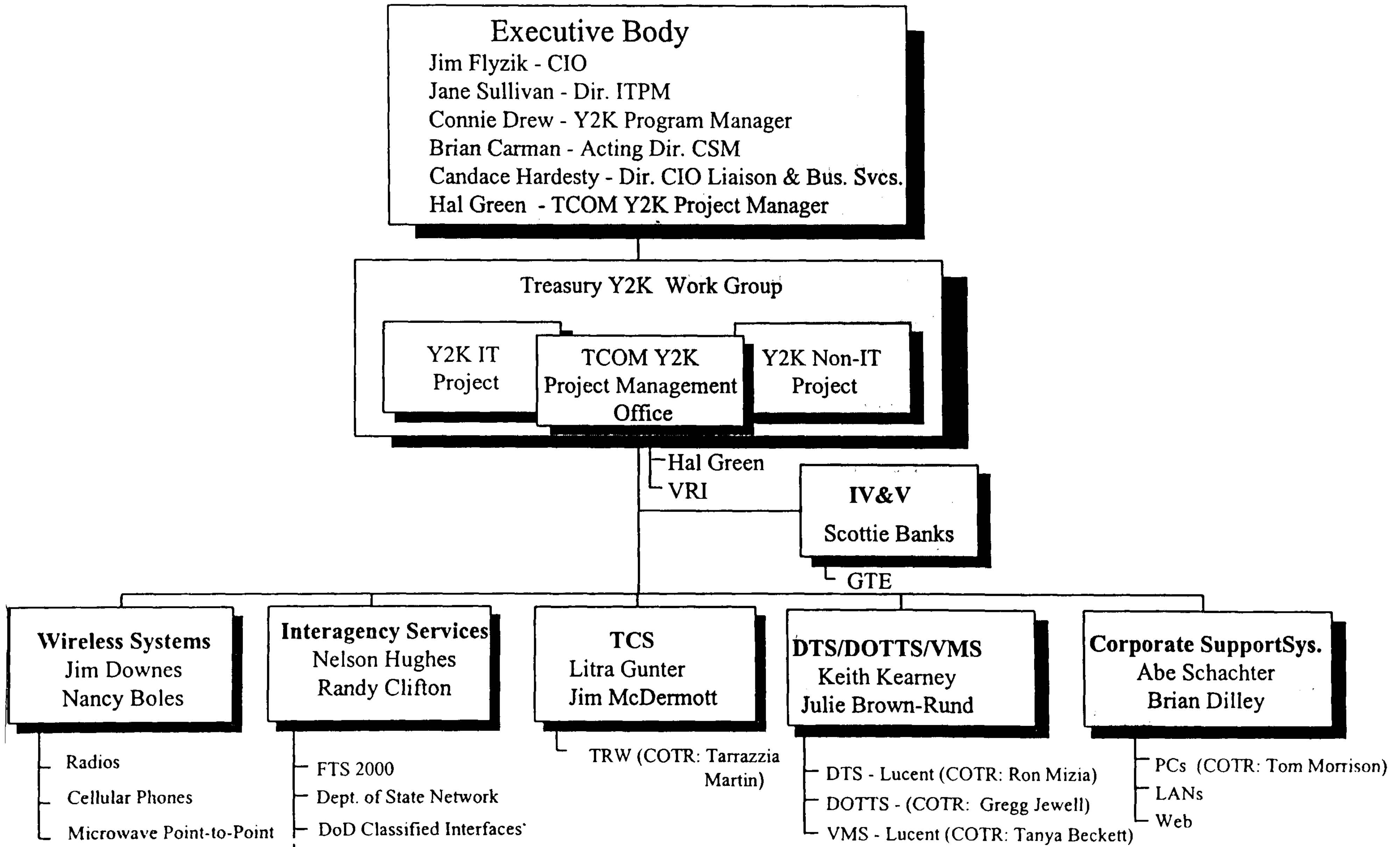
Thank you for the opportunity to meet with you today to discuss the actions being taken by the Department of the Treasury in addressing the Year 2000 computer problem. I will be happy to answer any questions you may have regarding this important matter.

-30-

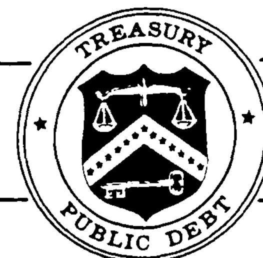
Treasury Year 2000 Program Management



Telecommunications Year 2000 Work Group



PUBLIC DEBT NEWS



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

EMBARGOED FOR RELEASE AT 3:00 PM
May 6, 1998

Contact: Peter Hollenbach
(202) 219-3302

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

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

Dollar Amounts in Thousands

Principal Outstanding (Eligible Securities)	$1,319,684,903
Held in Unstripped Form	$1,088,124,510
Held in Stripped Form	$231,560,393
Reconstituted in April	$13,591,039

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-2420

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TABLE VI - HOLDINGS OF TREASURY SECURITIES IN STRIPPED FORM, APRIL 30, 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	4,469,806	3,832,000	49,600
DQ8	12	AD5	05/15/05	4,260,758	2,765,858	1,494,900	100,500
DR6	10-3/4	AG8	08/15/05	9,269,713	7,279,313	1,990,400	8,000
DU9	9-3/8	AJ2	02/15/06	4,755,916	4,747,916	8,000	0
DN5	11-3/4	912800 AA7	11/15/14	6,005,584	2,792,784	3,212,800	233,600
DP0	11-1/4	912803 AA1	02/15/15	12,667,799	11,355,959	1,311,840	375,040
DS4	10-5/8	AC7	08/15/15	7,149,916	6,741,916	408,000	162,240
DT2	9-7/8	AE3	11/15/15	6,899,859	5,432,659	1,467,200	136,000
DV7	9-1/4	AF0	02/15/16	7,266,854	6,928,454	338,400	136,000
DW5	7-1/4	AH6	05/15/16	18,823,551	18,565,951	257,600	800
DX3	7-1/2	AK9	11/15/16	18,864,448	18,058,928	805,520	4,160
DY1	8-3/4	AL7	05/15/17	18,194,169	8,175,929	10,018,240	861,280
DZ8	8-7/8	AM5	08/15/17	14,016,858	8,768,858	5,248,000	420,800
EA2	9-1/8	AN3	05/15/18	8,708,639	3,067,039	5,641,600	161,600
EB0	9	AP8	11/15/18	9,032,870	2,041,670	6,991,200	230,400
EC8	8-7/8	AQ6	02/15/19	19,250,798	5,673,198	13,577,600	1,043,200
ED6	8-1/8	AR4	08/15/19	20,213,832	18,002,312	2,211,520	410,560
EE4	8-1/2	AS2	02/15/20	10,228,868	5,780,868	4,448,000	515,600
EF1	8-3/4	AT0	05/15/20	10,158,883	3,051,523	7,107,360	105,120
EG9	8-3/4	AU7	08/15/20	21,418,606	5,535,566	15,883,040	764,960
EH7	7-7/8	AV5	02/15/21	11,113,373	10,086,173	1,027,200	105,600
EJ3	8-1/8	AW3	05/15/21	11,958,888	4,402,088	7,556,800	146,240
EK0	8-1/8	AX1	08/15/21	12,163,482	5,768,602	6,394,880	1,086,400
EL8	8	AY9	11/15/21	32,798,394	7,840,519	24,957,875	1,072,125
EM6	7-1/4	AZ6	08/15/22	10,352,790	8,957,590	1,395,200	583,200
EN4	7-5/8	BA0	11/15/22	10,699,626	2,715,626	7,984,000	60,800
EP9	7-1/8	BB8	02/15/23	18,374,361	10,564,761	7,809,600	748,800
EQ7	6-1/4	BC6	08/15/23	22,909,044	18,229,236	4,679,808	229,024
ES3	7-1/2	BD4	11/15/24	11,469,662	3,274,862	8,194,800	97,040
ET1	7-5/8	BE2	02/15/25	11,725,170	3,353,970	8,371,200	976,000
EV6	6-7/8	BF9	08/15/25	12,602,007	10,770,327	1,831,680	421,760
EW4	6	BG7	02/15/26	12,904,916	12,589,316	315,600	24,600
EX2	6-3/4	BH5	08/15/26	10,893,818	10,093,818	800,000	140,000
EY0	6-1/2	BJ1	11/15/26	11,493,177	10,974,777	518,400	0
EZ7	6-5/8	BK8	02/15/27	10,456,071	8,835,271	1,620,800	475,200
FA1	6-3/8	BL6	08/15/27	10,735,756	10,503,756	232,000	0
FB9	6-1/8	BM4	11/15/27	22,518,539	22,435,339	83,200	36,800
Total Treasury Bonds				480,658,801	310,632,538	170,026,263	11,923,049

TABLE VI - HOLDINGS OF TREASURY SECURITIES IN STRIPPED FORM, APRIL 30, 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	6,357,187	2,808,200	177,800
WN8	C	9-1/4	AP2	08/15/98	11,342,646	7,188,246	4,154,400	32,800
WW8	D	8-7/8	AQ0	11/15/98	9,902,875	5,064,475	4,838,400	145,600
XE7	A	8-7/8	AR8	02/15/99	9,719,623	7,092,423	2,627,200	105,600
XN7	B	9-1/8	AS6	05/15/99	10,047,103	6,251,903	3,795,200	200,000
XW7	C	8	AT4	08/15/99	10,163,644	6,862,744	3,300,900	38,900
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	6,812,360	3,961,600	118,400
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	16,747,060	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	8,149,433	2,523,600	52,000
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	17,206,386	17,206,386	0	0
4C3	AC	5-5/8	CV7	04/30/00	15,633,200	15,633,200	0	0
YW6	B	8-7/8	AW7	05/15/00	10,496,230	5,600,230	4,896,000	0
ZE5	C	8-3/4	AX5	08/15/00	11,080,646	7,371,366	3,709,280	95,200
ZN5	D	8-1/2	AY3	11/15/00	11,519,682	7,150,482	4,369,200	13,200
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	7,969,602	3,343,200	12,800
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	8,890,333	3,507,750	58,250
B92	C	7-7/8	BB2	08/15/01	12,339,185	8,932,785	3,406,400	204,800
D25	D	7-1/2	BC0	11/15/01	24,226,102	20,015,782	4,210,320	79,760
F49	A	7-1/2	BD8	05/15/02	11,714,397	9,922,237	1,792,160	84,080
G55	B	6-3/8	BE6	08/15/02	23,859,015	22,518,215	1,340,800	51,200
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	2,400
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	22,943,075	619,616	6,400
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	14,172,892	14,172,892	0	0
4D1	F	5-3/4	CW5	04/30/03	12,572,290	12,572,290	0	0
L83	B	5-3/4	BG1	08/15/03	28,011,028	27,578,228	432,800	25,600
N81	A	5-7/8	BH9	02/15/04	12,955,077	12,761,477	193,600	1,600
P89	B	7-1/4	BJ5	05/15/04	14,440,372	14,431,572	8,800	161,600
Q88	C	7-1/4	BK2	08/15/04	13,346,467	12,824,067	522,400	0
R87	D	7-7/8	BL0	11/15/04	14,373,760	14,373,760	0	0
S86	A	7-1/2	BM8	02/15/05	13,834,754	13,834,194	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	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					789,085,598	727,551,468	61,534,130	1,667,990
Treasury Inflation-Indexed Notes:								
CUSIP:	Series:	Interest Rate:						
912827 3A8	J	3-5/8	912820 BZ9	07/15/02	16,999,488	16,999,488	0	0
2M3	A	3-3/8	BV8	01/15/07	16,101,495	16,101,495	0	0
3T7	A	3-5/8	CL9	01/15/08	8,427,695	8,427,695	0	0
Total Inflation-Indexed Notes					41,528,678	41,528,678	0	0
Treasury Inflation-Indexed Bonds:								
CUSIP:		Interest Rate:						
912810 FD5		3-5/8	912803 BN2	04/15/28	8,411,826	8,411,826	0	0
Total Inflation-Indexed Bonds					8,411,826	8,411,826	0	0
Grand Total					1,319,684,903	1,088,124,510	231,560,393	13,591,039

Note: On the 4th workday of each month Table VI will be available after 3:00 p.m. eastern time on the Commerce Department's Economic Bulletin Board (EBB) and on the Bureau of the Public Debt's website at http://www.publicdebt.treas.gov. For more information about EBB, call (202) 482-1966. The balances in this table are subject to audit and subsequent adjustments.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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Monthly Release of U.S. Reserve Assets May 7, 1998

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

As indicated in this table, U.S. reserve assets amounted to $ 70,329 million at the end of April 1998, up from $ 69,353 million in March 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						
March	69,353r	11,049r	10,108	13,582	16,638	17,976
April	70,329p	11,049p	10,188	13,821	17,053	18,218

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

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DEPARTMENT OF THE TREASURY

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STATEMENT PREPARED FOR THE RECORD
EMBARGOED UNTIL 2 P.M. EDT
May 7, 1998

TREASURY ASSISTANT SECRETARY FOR TAX POLICY DONALD C. LUBICK SENATE ENERGY AND NATURAL RESOURCES SUBCOMMITTEE ON NATIONAL PARKS, HISTORIC PRESERVATION AND RECREATION

Chairman Thomas and distinguished Members of the Subcommittee, I am pleased to have the opportunity to submit this statement on behalf of the Treasury Department with respect to Titles VI, VII, VIII, and XI of S. 1693, a bill to renew, reform, reinvigorate, and protect the National Park System.

The Treasury Department supports the National Park Service and the work it is doing to protect and preserve an important public resource -- our National Parks. At the same time, we recognize the importance of developing appropriate financing methods that meet the needs of the Park Service and avoid negative and fiscal implications for taxpayers. As you are aware, the Treasury Department is committed to working with the Interior Department, the Office of Management and Budget, and the Subcommittee on the financing needs of the Park Service.

Treasury's comments are confined to Section 701 of the bill, which is the only section dealing with a tax matter. Section 701 of the bill would permit an individual income tax filer to designate that a portion of his or her tax refund (or of an additional amount included with his or her tax return) be paid to the National Parks Trust Fund. The designation would be made on the individual income tax return, on either the first page or the page with space for the taxpayer's signature.

Despite the worthy goal to be served by allowing the funds to be designated, the Treasury Department opposes Section 701 of the bill. There are many federally supported functions that may be interested in soliciting additional voluntary contributions from taxpayers. It is Treasury's view that the tax collection system should not be used to give preferential treatment to certain functions over others.

In addition, we have concerns about how this proposal would be administered and what its impact would be on the efficiency and effectiveness of the tax system. By requiring information that does not directly relate to the determination of an individual's tax liability or overpayment, tax check-off and designation provisions complicate tax returns and instructions for all taxpayers and frustrate the objective of reducing the paperwork burden from, and the complexity of, tax forms.
RR-2422

Such provisions can have a particularly adverse impact on certain types of very efficient electronic filing methods, such as the TeleFile program under which simpler tax returns can be filed interactively over the telephone. More importantly, the available space on individual income tax forms is very limited and is already allocated so as to maximize compliance. Mandating additional items could displace items crucial to the proper reporting and collection of tax. That could limit the ability of the Internal Revenue Service to properly enforce the tax laws, and thus reduce tax receipts.

Including designations would increase complexity more than it may at first appear, and such complexities would have to be addressed in any enabling legislation. For example, a taxpayer's refund may be less than the taxpayer expects if the refund is offset to pay another liability such as an unpaid student loan or child support amount. In other circumstances, a taxpayer may initially receive a refund but subsequently be found to owe additional tax. Such possibilities would complicate the IRS' handling of designated amounts, and would add to the burdens and costs of developing and maintaining the necessary returns processing systems.

The additional burdens from implementing a refund designation program would be particularly troublesome for IRS over the next several years. IRS must solve the year 2000 computer issue. Many systems must be revised and in place before the beginning of the year 2000, but work may continue on other, somewhat less crucial systems for several additional years. Major, long overdue modernization of IRS' systems will also require large amounts of resources. For both of these reasons, IRS would be unlikely to be able to implement a new refund designation system in the time frame specified by S.1693.

Finally, the Committee should be aware that taxpayer utilization of any refund designation option is likely to be quite low. Many states have included check-off and designation programs on their income tax forms. While utilization varies among programs and states and over time, it is our understanding that typically only a small percentage of taxpayers make use of the options.

I hope these comments are useful to the Committee in its consideration of S.1693. Again, thank you for the opportunity to express our views on this legislation.

DEPARTMENT OF THE TREASURY

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EMBARGOED UNTIL 12:15 PM
May 7, 1998

ASSISTANT SECRETARY FOR INTERNATION AFFAIRS TIMOTHY GEITHNER
THE EMU, UNITED STATES AND THE WORLD ECONOMY

I am pleased to be here. Your timing for this conference could not be better, but at a time when almost everyone on the planet is speaking about EMU in some capacity its hard to convey much new light on this issue.

I think my role today is to say something about what EMU might mean for the United States, and to provide one perspective on where our interests, America's interests, lie in this endeavor.

I don't think it will surprise you to hear that our approach to EMU starts with the recognition that what is good for Europe economically is basically good for the United States. Europe's gain is our gain. An economically unified, stable, prosperous, even ascendant Europe is better for us than the alternatives. U.S. companies are well positioned to benefit from the potential opportunities created by this next stage of European integration.. We see no threat to U.S. interests in a successful effort to build a strong, integrated European economy, with a sound and stable currency.

Progress Toward EMU

I think it is remarkable how far Europe has come over the past six months, not to mention since the Maastricht Treaty itself was signed.

- There has been remarkable convergence in interest rates and inflation performance, and significant cumulative reductions in fiscal deficits.

- The Euro skeptics are in retreat, with new optimism emerging about corporate sector restructuring on the Continent. The strong Euro camp is more ascendant in the market's eyes than the soft Euro school that dominated a few months ago

- Work on the plumbing of this new financial system has made substantial progress

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- And all this has come with a moderate recovery in confidence and growth in the major continental economies.

The Challenges Ahead

Yet, not all is bright. Many of the challenges that clouded the European horizon in the recent past still exist, though they have been masked somewhat by the growing recovery. How these challenges are resolved will have much to do with how Europe fares as monetary union is put in place.

- Unemployment remains high in large parts of the continent, and the recovery has not yet produced meaningful growth in private sector employment.

- Attempts at structural reform in the form of greater labor market flexibility still face strong opposition.

- There is still much to be done to increase competition, innovation, and growth in the markets for many products and services, including financial services.

- Despite the progress on the fiscal front, budget deficits in the major economies are still at levels that are unsustainable over the long run and provide little scope for automatic stabilizers to work in the event of a future slowdown.

- The institutional framework for setting monetary policy and for cooperating on other policy issues has yet to be fully defined or tested in practice.

- Popular opinion is still not be fully supportive of EMU in some important member countries, though polls show they will acquiesce in its arrival.

- Europe still faces the question of how countries will adjust to assymetric shocks given the existing degree of labor mobility and in a context where they will no longer have the capacity to use macroeconomic policy or the exchange rate

So, where does this leave the United States? We have made a substantial investment over the last several years in assessing the implications of EMU for the United States and the international financial system. We've had a team of Treasury people in Europe following the process, and an informal group of analysts in Washington at Treasury, the Fed, and the CEA. We've drawn heavily on the work of the academic community and the analysts in the financial community. My remarks reflect the results of this investment

The Framework for Macroeconomic Policy

America's interests in EMU lie first in seeing the establishment of a credible framework for monetary and fiscal policy that will provide a sound foundation for domestic-demand-led economic growth and a sound new currency. This means an independent central bank, free of political influence. It means achieving and maintaining more sustainable fiscal positions. And it means establish a clear exchange rate orientation that is insulated from temptation to use the exchange rate to compensate for the constraints on other policy instruments. Together, these things will be critical to the confidence investors have in the new currency.

Credibility, however, will be more complicated than simply applying the stability pact and stating that monetary policy will be directed at the objective of price stability. Credibility will ultimately depend on whether the macroeconomic policy framework is successful in delivering sustainable growth that creates jobs. For if EMU fails to deliver the economic results on which most governments are ultimately judged, then it may not be viewed as sustainable politically.

Structural Reform

The second area critical to U.S. interests is the structural agenda. Our interests lie in seeing the Europeans succeed in making their economies more dynamic in adjusting to structural change and their labor markets more flexible. The fundamental and most troubling paradox of EMU is that it does not itself address what are probably the greatest economic challenges in Europe -- the structural agenda -- and yet Europe's success in dealing with these challenges will be critical to the success of monetary union itself.

Conventional wisdom has for some time been quite dark on the prospects for success in this area. The efforts by the Governments in some of the major economies have not been particularly ambitious, and where they may have attempted ambition, they have not been particularly successful.

A successful attack on structural problems is difficult because it will almost certainly require a substantial reduction in the role of the state in the continental economy, a less generous benefit system, a regulatory regime that rewards innovation rather than inhibiting it, and a willingness to let both firms and workers be exposed to the costs of adjustment and the consequences of failure.

Just to say it again, this area is critically important, because structural change that produces a more flexible, responsive European economy, will be critical to making monetary union work economically and to making it politically sustainable.

Europe on the Broader Global Stage

A third area of importance to the broader implications of EMU lie in the institutional framework for decision making and the outward orientation of the new regime. Our interests lie in seeing Europe preserve a capacity to act effectively on the world stage and to support further economic integration with its trading partners.

The architects of EMU believe a Europe united on economic issues will speak with a single, more powerful voice on the economic stage. This may be true, yet what matters more is what Europe says and how it uses it voice. What is significant to Europe's trading partners is that the requirements of consensus not impede effective action, that the challenge of making EMU work not distract attention from other compelling problems, that the political pressures that will come with structural reform in economies with very large unemployment not tilt the balance in Europe toward those more separatist than integrationist in outlook.

It is also important to the international community that Europe develop an architecture of decision making that makes it possible for us to act together effectively with individual members states and with the new European institutions.

This is important in areas where speed, discretion, and a common framework are important, as in exchange market cooperation. And it is important in areas where the security and economic interests and the policy preferences of the member states may be quite diverse, and yet we may need to act together to address common concerns. This may be true with respect to common challenges we face in the specific regions of the world. And it may be true on specific policy issues that involve the international financial institutions.

These factors are important criteria against which to evaluate the potential impact of EMU. Europe's success in these areas will determine the degree to which Europe is able to create a more dynamic economy that can increase private sector employment, a strong euro, and a more open Europe that remains supportive of further integration with the world economy and Eastern Europe.

Our view is that a successful EMU measured against these objectives would be very much in the interests of the United States and of the world economy as a whole.

Implications for the International Monetary System

There are those who say that a successful EMU may present a threat to the United States economy and a serious challenge to the dollar's role as a reserve currency. We do not share their concerns.

If the leaders of Europe deliver a successful, credible EMU backed by strong policy fundamentals, a more integrated capital market, and a more dynamic economy, then EMU would

probably be associated with some gradual increase in the euro's role in the system, relative to that now enjoyed by the original currencies of the participating economies.

This is not something we in the United States should view with concern, and it is not something we should try to resist.

All the bad scenarios for the dollar would probably have to start in the United States, with some event that would undermine the unique set of factors that now account for the dollar's central role in the system. Our primary concern should be to focus on those among this set of factors that we can influence. And that means to focus our attention on sustaining policies that make people regard our currency as a reliable store of value and an attractive means of payment, that make the U.S. financial markets the most deep and liquid and innovative in the world, and that make the U.S. economy an attractive place to invest.

EMU has also raised some other interesting questions about the international monetary system, in particular the exchange rate system.

At this point, it looks like there will be more continuity than change in the international monetary system as a result of a successful EMU. For the participants in EMU as a group, trade will represent roughly the same share of GDP as is the case now the United States and Japan. The exchange rate policy and the monetary policy orientation of the euro area look likely to be quite close to Germany's at present, and thus quite similar to that of the Japanese and U.S. monetary authorities. There will continue to be a flexible exchange rate system among the major currencies, which we regard as a good thing. And we will seek to maintain an effective process for cooperation on economic policy and in the exchange markets when circumstances make that desirable and effective.

In this world, exchange rate stability depends mostly on each of us achieving sustained, non inflationary growth at home, and avoiding serious domestic and external imbalances. EMU won't change that.

Conclusion

Let me conclude by giving you the definitive word. President Clinton issued the following statement on Monday:

> "We welcome this weekend's historic announcement that eleven European countries have qualified for, and decided to establish, an Economic and Monetary Union (EMU). The United States has long supported European integration. We admire the determination that Europe has shown in moving toward the economic convergence that makes EMU possible. A strong and stable Europe, with open markets and healthy growth, is good for America and for the world. A successful EMU that contributes to a dynamic Europe is clearly in our best interest."

DEPARTMENT OF THE TREASURY

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FOR IMMEDIATE RELEASE
May 7, 1998

STATEMENT BY DEPUTY SECRETARY LAWRENCE H. SUMMERS
ON THE LOW INCOME HOUSING TAX CREDIT

"Secretary Rubin and I applaud the bipartisan effort to pass a 40 percent expansion in the low income housing tax credit. The tax credit is helping to rebuild neighborhoods and restore hope in communities all across the country. Already, the tax credit helps to build 90,000 units of affordable housing every year. With this expansion, we will help to build an additional 180,000 units over the next five years. This affordable housing means not only new homes for hard working families, but also neighborhood revitalization, bringing stability, better safety, and new businesses to communities.

"President Clinton and Vice President Gore called for this expansion in our Fiscal Year 1999 balanced budget, fully paid for. The co-sponsors of the legislation -- Senators D'Amato, Sarbanes and Graham, Representatives Johnson, Rangel, Ensign, Lazio and Metcalf -- all deserve our thanks for working together on this important legislation."

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RR-2424

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

May 7, 1998

SECRETARY OF THE TREASURY

The Honorable Newt Gingrich
Speaker
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Speaker:

As the House again moves to consider H.R. 10, I want to reiterate the Administration's strong opposition to the bill.

Enclosed are the March 31 Statement of Administration Policy and my March 16 letter.

If the bill were to be presented to the President in its current form, I would recommend that he veto it.

Sincerely,

Robert E. Rubin

Enclosures

cc: Members of the House Banking Committee
Members of the House Commerce Committee
Members of the House Rules Committee

RR-2425

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

STATEMENT OF ADMINISTRATION POLICY

(THIS STATEMENT HAS BEEN COORDINATED BY OMB WITH THE CONCERNED AGENCIES.)

March 31, 1998
(House)

H.R. 10 - Financial Services Act of 1998[1]
(Leach (R) IA and 3 cosponsors)

The Administration strongly opposes H.R. 10.

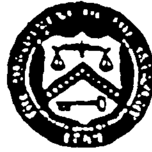
The Financial Modernization provisions of H.R. 10 would: (1) stifle innovation and efficiency in the national banking system; (2) undermine the Community Reinvestment Act by forcing financial innovation to occur in holding company affiliates rather than in bank subsidiaries; (3) diminish the ability 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.

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.

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.



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

March 16, 1998

SECRETARY OF THE TREASURY

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.

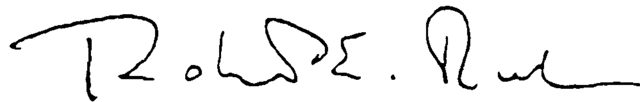
Similarly, the bill strips away the benefits of the thrift charter -- without making the benefits of that charter available to all depository institutions, as the Treasury did in its legislative proposal.

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.

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

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FOR IMMEDIATE RELEASE
May 7, 1998

Contact: Paul Elliott
(202) 622-2960

JOINT STATEMENT BY TREASURY SECRETARY ROBERT E. RUBIN, FEDERAL RESERVE BOARD CHAIRMAN ALAN GREENSPAN AND SECURITIES AND EXCHANGE COMMISSION CHAIRMAN ARTHUR LEVITT

On May 7, the Commodity Futures Trading Commission ("CFTC") issued a concept release on over-the-counter derivatives. We have grave concerns about this action and its possible consequences. The OTC derivatives market is a large and important global market. We seriously question the scope of the CFTC's jurisdiction in this area, and we are very concerned about reports that the CFTC's action may increase the legal uncertainty concerning certain types of OTC derivatives.

The concept release raises important public policy issues that should be dealt with by the entire regulatory community working with Congress, and we are prepared to pursue, as appropriate, legislation that would provide greater certainty concerning the legal status of OTC derivatives.

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NEWS CLIPS

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FOR IMMEDIATE RELEASE
May 7, 1998

Contact: Michelle Smith
(202) 622-2960

**STATEMENT BY TREASURY SECRETARY ROBERT E. RUBIN
ON SENATE IRS BILL**

I welcome the Senate vote on the IRS reform bill. I believe that it will lead to a final bill with the organizational and personnel provisions that will give Commissioner Rossotti the tools he needs to create the IRS the American people deserve. I commend the bipartisan effort in the Senate to pass this bill.

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EMBARGOED FOR RELEASE AT 12:30 BST
Text as Prepared For Delivery
May 8, 1998

Secretary Robert E. Rubin
Mansion House
London, United Kingdom

More than thirty years ago, I spent a year in London as a student at the London School of Economics. It was one of the most important and wonderful years of my life -- in large part because I had no responsibilities. Living and working with students from around the world taught me first-hand about the issues of the world and the viewpoints of those from other lands in a way I never could have learned at home. When I left I always wanted to come back and live in London. I've never had that opportunity but I have spent a lot of time here and I have always felt at home.

I also feel quite at home, from my business days, in the City, the world's first global financial center; indeed, at the turn of the century, the world's only such center. In the decades since, the City has retained that importance. Today, more foreign banks have offices here than any other metropolitan area, and London is the world's center for foreign exchange trading. At the eve of the twenty-first century, the City remains a dynamic and vital global financial center.

I gained my practical experience in global markets in another financial center: Wall Street. During 26 years on Wall Street, and five years working on economic policy in the Clinton Administration, I have experienced first-hand the intersection between politics and economics in today's fast paced world. Today I would like to focus on core issues at this intersection: the critical importance of a nation's policies keeping pace with demands of the global economy, and, for that to happen, the critical importance of a nation's politics keeping pace with the demands of the global economy. I want to address these matters for two reasons. First, the success of each nation in meeting its heightened challenges in domestic and international economic policy deriving from the global economy will determine its fate in the global economy. Second, in this era of interdependence, the actions of each nation can and will affect other nations as never before.

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The interdependence created by international economic ties is, of course, not entirely new. But massive political and economic changes in recent years have vastly increased the extent of our interdependence. Behind the vast increase in interdependence lie a number of factors -- especially the abandonment of central planning for free market policies and private sector-led growth which has greatly broadened the scope of world markets and the impact of technology which has linked nations in ways unimaginable just five years ago.

The scale and integration of global financial markets and the global economy have expanded dramatically, and there has been an explosion of trade and investment. This, in turn, has produced higher rates of growth and opened up new opportunities for many. As President Clinton has so often said, our job now is to continue to make the most of these new opportunities and to act so that their benefits are widely shared.

The changes in the global economy have been felt worldwide, but they have had the greatest impact on developing and transitional countries. In many of those nations, standards of living have increased substantially and millions have been lifted out of poverty, although there is most certainly an enormous amount left to do. In Latin America, for example, a growing list of nations have had significant success in promoting the mutually reinforcing movement towards the policies of market economics and the politics of democracy. In the process, they are transforming themselves into dynamic economies and increasing their economic ties with industrial nations, as are developing countries all over the globe. For example, exports to emerging markets by the United States now account for more than 40 percent of our total exports. Here in the United Kingdom exports to emerging market economies now account for 47 percent of non-European exports. And private capital flows to emerging markets have increased from $20 billion ten years ago to $250 billion last year.

But these new opportunities have also brought new risks, as we have seen most recently in the Asian crisis. While global capital markets have enormous power to finance investment and growth, they also treat harshly countries viewed as pursuing unsound policies. In turn, those impacts are felt not only in the countries involved but around the world. That is why the pursuit of sound domestic and international economic policies in each nation is more important for all nations than ever before. Twenty five years ago, for example, fluctuations in the Thai baht, or the fortunes of the Korean stock market would have been little noticed and would have had little effect outside those countries. Now they appear daily on the front page of newspapers around the world and have significant economic effects on workers, farmers and businesses from Bangkok to Brussels.

This growing interdependence has given all nations an increasingly greater stake in each other's success, and all nations have a responsibility to pursue sound polices. It is in that framework, for example, that during the 1980s and very early 1990s, the rest of the world criticized the United States for our large budget deficits, which had adverse impacts on countries around the globe. And it is in that spirit that the finance ministers of the major industrialized

nations gather in London this week to review each nation's economic situation as well as the common interests we share.

At the heart of our discussions will be the critical question of what governments should do to promote economic growth and financial stability in their respective countries. Some have argued that in this world of huge global markets, government has, in essence, become largely irrelevant. I don't think there is any question that, as President Clinton and Prime Minister Blair have often said, The underlying strength of a modern economy is a productive and competitive private sector. But, as both the President and the Prime Minister have also said, government remains critically important, although its role is changing. In a modern economy, governments have a necessary and vital role in creating the legal, institutional and economic setting in which the ingenuity, skill, enterprise and dynamism of the private sector can flourish and in which the benefits of growth are broadly shared. And there are some issues that markets alone simply will not address effectively -- education, training, the provision of a social safety net, environmental protection and core labor standards, to name a few matters where government is essential

The pursuit of these and other policies essential to success in the global economy is not an easy task politically and each nation will follow a different path in pursuing these policies. But we all share a common challenge: for our nations' policies to keep pace with the demands of the global economy, our political systems must function effectively to meet those demands.

Let me now turn to what, in our view, are some of the most important policy challenges that governments in the United States, Europe, and Asia face today.

First, the United States. Early in the first term of the Clinton Administration, a reporter from a well-respected European newsmagazine interviewed me. At the end, he 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 because of the state of our public schools and our inner cities.

These are critical challenges that, particularly at a time when the U.S. economy is doing well, we must meet. In addition, we must maintain fiscal discipline, help those who are dislocated by trade and technology, and protect those who would otherwise be left behind. Finally, and very importantly, we must be strongly engaged with respect to the issues of the international economy. In an interdependent global economy, strong American involvement in addressing these issues is important not only to our own people, but to the rest of the world.

For the last fifty years, the United States has been a leader in liberalizing global trade, promoting growth in developing countries, fostering a strong global economy, and dealing with the problems of financial instability. This is no time to turn our backs on the strategy that has so benefited my country and the world. Yet there are loud and growing voices urging us to turn inward. We follow them at our peril. As seen by the debates in the United States over the President's authority to negotiate trade agreements, the obstacles we have faced in securing

funding for the IMF, and the impasse we have reached over our dues to the United Nations, we have much work to do in building broad-based public support for the forward looking international economic policy that is so central to our own economic well being.

One obstacle to building this public support is anxiety about the rapidity of change in this era of the global economy and dramatic technological developments. Yet ironically, it is exactly that globalization and technological change that fuels the economic growth that benefits so many. The key is not a vain effort to turn back the clock and to reject these forces for good, but to equip all of our people to succeed in this new environment, to maintain a sound economic policy regime more generally, and to greatly improve public understanding of the opportunities and dynamics of the global economy and the benefits of forward looking economic policy.

Let me turn now to Europe.

In our view, three challenges stand out; launching the European Economic and Monetary Union; furthering Europe's integration with the rest of the world; and addressing specific domestic issues that each nation faces to foster growth and create jobs.

The launch of the Euro begins a new phase in Europe's integration, an era of tremendous promise. A successful Euro would help build a more efficient common market and would create powerful impetus for countries to pursue sound policies and structural reforms -- both of which would foster a stronger and more prosperous Europe -- and that is very much in the interest of the United States and the rest of the world.

Some have raised concerns about the effect of a successful Euro on the international role of the dollar. We do not share these concerns. We expect the dollar to continue to play a central role in the international system. This role stems from the size and strength of the U.S. economy, the extensive ties between the U.S. economy and the rest of the world, the depth and liquidity of U.S. financial markets, and sound macro-economic policies. None of this will change with the creation of a successful Euro. We look forward to a successful Euro that would benefit Europe, the United States and the rest of the world.

As the Euro helps to further integrate some nations in Europe, it is critical that Europe does not build walls between itself and the rest of the world. More affirmatively, we strongly favor further liberalizing trans-Atlantic trade. As to ties among European nations, it is our view that monetary integration should not delay bringing the transitional economies of Eastern and Central Europe into the EU. Enlargement of the European Union will do much to cement Eastern Europe's transition to market democracy; it is a corollary to NATO expansion.

Finally, the European nations continue to face structural and other issues that are key to economic growth and job creation. No one, least of all we in the United States, underestimates the difficulty in making markets more flexible, helping workers adapt to the global economy, and preparing for an aging population -- and we have much to do in all of these areas. But it is

precisely in tackling these types of issues, which are made even more important by the advent of the Euro, that politics must keep pace with economic imperatives.

Here in the United Kingdom, while unemployment is at an 18-year low, Prime Minister Blair has pointed out that for you too there is still much to be done. As his agenda has emphasized, modernizing your nation's social safety net and improving education and training are clearly critical to the UK's continued success.

Let me now briefly turn to Asia.

One of the great economic accomplishments of the past fifty years has been the phenomenal economic growth of Japan. But as this economic growth has slowed through the 1990's, Japan's economic situation has become the focus of much attention in Asia and across the world. Japan faces the challenge of implementing quickly and effectively its substantial fiscal stimulus plan, strengthening its financial system, opening its markets and deregulating its economy. All of these are obviously difficult political challenges, but critical to Japan's own economic well being and to the economic well being of Japan's Asian neighbors and the rest of the world.

China, with one fifth of the world's population, also faces enormous domestic challenges. As Premier Zhu Rongji made clear in his recent remarks at Guild Hall, high priorities include restructuring of state-owned enterprises, adaptation of China's social safety net, and far-reaching reforms of the banking system. And here too, these enormous shifts in policy will pose great political challenges.

In Asia more broadly, we are beginning to see a return to financial stability in a number of the countries affected by the recent crisis, but there is an enormous amount to do even when reform has taken hold to get back on the path of sustained economic growth. The financial assistance mobilized by the International Monetary Fund has played a key role in providing breathing room for these countries. What is important now is sustained adherence to strong reform programs, as difficult politically as that may be. Sound macroeconomic policies, stronger financial systems and more open markets are key to restoring financial stability and to the long term economic health of these nations.

The crisis in Asia has illustrated the importance of the work that the international community began three years ago to strengthen the international financial architecture to help prevent such crises and to deal with them more effectively when they occur. The Bretton Woods institutions have served the international community well for fifty years, but -- as will be discussed in our meetings today and tomorrow and at the upcoming Leaders' meeting in Birmingham -- that architecture needs to be modernized for the challenges of today's global economy.

The United States believes architectural reform should focus on three areas: First, an increase in transparency so that investors have better information with which to make good

decisions. However, investors must then use that information well. We were struck during the Asia crisis how little rigorous risk analysis was done by many creditors and investors. Second, we must strengthen domestic financial systems, to reduce the risk of economic and financial crises. Virtually all financial crises in developing countries either began in or were exacerbated by badly flawed financial sectors. These efforts will focus on measures to promote the adoption of sound financial sector policies and new global standards, the cultivation of a strong credit culture, and the possible development of new institutional arrangements for international surveillance of domestic financial systems. Finally, we must work to create mechanisms so that creditors and investors more fully bear the consequences of their actions and thereby address the so-called moral hazard problem. These mechanisms may include incentives to facilitate debt-creditor negotiations and exploring "lending into arrears" by the IMF.

Before I conclude, let me mention one more critical objective in the global community: continuing to promote growth and reform in the poorest countries. Despite the enormous progress made in developing countries over the last quarter century, half of the people of the world still live in poverty. In particular, the continent of Africa has been largely left behind in the globalization process. Having said that, there have been encouraging signs in that region recently, and the United States is committed to building on that progress so that Africa may also share in the benefits of the global economy. And of course, there is much work to do in other developing regions of the world.

When I first started working on Wall Street as an investment banker, few could have predicted the integration of the world's financial markets and of the global economy that has occurred over the last thirty years -- or how the economic domestic policies of one country now can affect other countries around the world. And few could have predicted the great benefits but also harsh penalties that the global markets now bring in reaction to national economic policies. For all of these reasons, sound and effective economic policies are more important than ever. And pursuing such policies almost always requires meeting difficult political undertakings -- be it building public support for international engagement, or creating a consensus for needed structural reforms, or adapting to market economics. Nations that successfully meet these economic and political challenges will realize the promise of the global economy for their own people and meet their responsibilities to the world.

The role of governments in setting the framework and providing the underpinnings is critical, but so too is the role of the private sector in being dynamic, productive and competitive. President Clinton has often said that today's globalization and technological development constitutes the most far reaching economic change since the industrial revolution, and has the potential for enormous economic good for all the people of the globe. Our challenge -- on the eve of the next century -- in both the public and private sectors is to harvest that potential and set the course toward making the 21st century an era of greatly improved economic well-being for all the world's people.

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FOR IMMEDIATE RELEASE
May 8, 1998

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

MEDIA ADVISORY
US TREASURY OFFICIAL TRAVELS TO NY TO PRESENT FEDERAL GRANT

John Carlisi, Program Manager for the Department of the Treasury's Community Development Financial Institutions (CDFI) Fund will travel to Ithaca, New York on Monday, May 11, 1998 to announce an $807,000 award to Alternatives Federal Credit Union. This assistance to Alternatives will allow the credit union to expand existing programs and develop new programs serving low-income individuals in Tompkins County.

Other participants in the press conference will be U.S. Congressman Maurice Hinchey, Alternatives' Manager Bill Myers and several of Alternatives' borrowers and partners who will share their reflections of Alternatives' impact on their lives.

WHAT: A press conference recognizing an $807,000 award made by the CDFI Fund of the U.S. Department of the Treasury.

WHERE: Alternatives Federal Credit Union's new Loan Center
109 South Albany Street
Ithaca, New York

WHEN: Monday, May 11, 1998
2:00 p.m.

PARTICIPANTS: John Carlisi, Program Manager, CDFI Fund, Department of the Treasury
U.S. Congressman Maurice Hinchey
Bill Myers, Manager, Alternatives Federal Credit Union
Alternatives Borrowers and Partners: Ineke Soto, Ceil Blumenstock, Sonya Hicks and Ariel Nereson

PHOTO OPPORTUNITY OF PRESENTATION OF AWARD CHECK

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FOR IMMEDIATE RELEASE
May 8, 1998

Contact: Michelle Lynn Bonner
(202) 622-2960

TREASURY OFFICIAL RECOGNIZES TWO STUDENT VOLUNTEER GROUPS

The Department of Treasury and the Internal Revenue Service today recognized the volunteer efforts of Texas students on behalf of taxpayers. Treasury Deputy Assistant Secretary for Management Operations Theodore Carter, presented students in East Dallas and Longview with certificates of appreciation from Treasury Secretary Robert E. Rubin for their work establishing IRS Volunteer Tax Assistance (VITA) sites.

In Dallas, Police Chief Ben Click joined Carter at the East Dallas Police Storefront to present Explorer Post 3166 with the certificate of appreciation. The group is comprised of 17 high school student Explorers who used their diverse Hispanic, Cambodian, Vietnamese and Anglo backgrounds, language skills, and training from the IRS North Texas District Office to help 135 area residents complete their tax returns.

In Longview, at Longview High School, Principal Brenda Modisette joined Carter to present the certificate of appreciation to 35 students. The students received the VITA training from the IRS North Texas District office and additional training on marketing and advertising through their high school. The students volunteered their spare time over a two-day period and helped a total of 55 classmates file their taxes. Twenty-two percent of those tax returns were filed electronically using the IRS's new telephone filing system (Telefile).

The IRS' Volunteer Income Tax Assistance (VITA) program, involves IRS-trained volunteers who provide free tax assistance at community locations to individuals who need assistance with basic income tax return preparation. VITA is aimed at those for whom paid assistance may be out of reach, those who are non-English speaking, persons with disabilities, those with a low income, the elderly, and other individuals with special needs.

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FOR IMMEDIATE RELEASE
May 11, 1998

Contacts: Bill Luecht/CDFI Fund
(202) 622-8042
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(202) 622-2960

TREASURY AWARDS COMMUNITY DEVELOPMENT GRANT TO CREDIT UNION

The Treasury Department announced today an $807,000 community development grant to Alternatives Federal Credit Union in Ithaca, NY to be used for expanding affordable housing, microenterprise lending and savings incentives programs.

John Carlisi, program manager for Treasury's Community Development Financial Institutions (CDFI) Fund presented the award to Alternatives Manager Bill Myers and Assistant Manager Leni Hochman. Congressman Maurice Hinchey participated in the award ceremony. Alternatives is one of 46 community development organizations recently selected to receive more than $38 million from the Community Development Financial Institutions Fund.

"The CDFI Fund is a sound investment for the Federal government," said Treasury Secretary Robert E. Rubin. "The Fund is helping to bring hope and foster growth in economically distressed communities across America, communities that have long been left behind," said Secretary Rubin. "Specialized community-based financial institutions, that receive funding from the CDFI Fund are revitalizing these communities by, for example, helping people buy a home or start a small business, with the goal of moving all Americans into the economic mainstream."

This assistance to Alternatives will dramatically strengthen the credit union. "The CDFI award will enable Alternatives to further its mission of serving low-income individuals in Tompkins County," said CDFI Fund Director, Ellen Lazar. "By expanding existing programs and developing new innovative programs, the Fund's investment will help Alternatives meet its ultimate goal of building a stronger local economic base."

Alternatives, which has received $480,289 of its award, will use the funds to expand its Affordable Mortgage Outreach Program and microenterprise services, in addition to its Dollars for Dreams Youth Credit Union and Individual Development Accounts programs. The CDFI Fund will be sending Alternatives the balance of its award once the credit union has raised required matching funds.

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The CDFI Fund's mission is to expand access to critically needed capital and financial services in low 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. The Fund's programs pursue strategies designed to meet the unique needs of each community by allowing the community to respond to its particular circumstances.

Established by Congress in 1994, the CDFI Fund has made 79 awards totaling over $75 million through its CDFI Program. As required by law, these dollars are matched one-to-one with non-Federal dollars by the award recipient resulting in a federal investment which will be leveraged, at a minimum, two-fold and often many times over.

The press conference took place at Alternatives' new Loan Center located at 109 South Albany Street. In addition to Mr. Carlisi, other officials who participated in the event were U.S. Congressman Maurice Hinchey (NY-26), Alternatives' Manager, Bill Myers and Assistant Manager, Leni Hochman. The following Alternatives' borrowers and partners made brief remarks: Ineke Soto, a borrower under the Affordable Mortgage program; Ceil Blumenstock, an Individual Development Account holder who is saving to expand her mail order catalog business for people with disabilities; Sonya Hicks, a microentrepreneur and owner of Christian Visions Bookstore Plus; and Ariel Nereson, a youth participant in the Dollars for Dreams Youth Credit Union who is a sixth grade student attending Boynton Middle School.

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FOR RELEASE AT 12:45 P.M. EDT
May 11, 1998

"Perspectives on Latin American and Global Capital Markets"
Remarks by Lawrence H. Summers,
Deputy Secretary of the Treasury
Council of the Americas
Washington, DC

Thank you. I am delighted to be here today to talk about Latin America's role in world capital markets with such a distinguished gathering.

It must give everyone in this room a sense of quiet satisfaction for there to have been a major developing world financial crisis these past months -- and for Latin America to have been a bit-player. And it must be no less a source of satisfaction to see some Asian reformers today being told to learn some lessons from Latin America.

A source of satisfaction -- but if cliches become cliches because they express truth, then certainly the cliche about the perils of complacency captures a very important truth for all of us in the Americas today. We have achieved a great deal in these latter years of the 20th century. But we have a great deal still to do if we are going to realize the enormous opportunities this new global economy holds out to Americans of every latitude.

Let me spend my time today discussing what I believe to be three major challenges we face in the years ahead: cementing and maintaining financial stability; furthering continental integration; and working to lay the grounds for rapid, more inclusive growth and development at home.

I. Investing in Financial Stability.
The risks to world financial markets posed by the crises in Asia have not all passed. And to be sure, Latin America is not going to emerge out of these events entirely unscathed. Reduced confidence in emerging markets as a whole and the negative terms of trade effects of recent events will are all likely to take their toll on the region for some months to come.

For all that, when we consider what might have happened, what many feared would happen at
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such a time -- the message of the past few months for Latin America is overwhelmingly positive. The fact is that we have seen in Latin America's weathering of this crisis a very significant maturation of the Latin American reform process that began a decade or so ago:

- we have seen it in the taking of early and decisive policy actions by governments such as Brazil to shore up market confidence and address potential imbalances;
- we have seen it in the successful accumulation of reserves by the major economies in the region throughout the crisis, with reserves in Mexico, Brazil and Argentina all now higher than they were last summer;
- we have seen it in the unwavering commitment of many governments to introduce and maintain high levels of transparency about financial and economic data and the direction of policy -- transparency that has greatly reduced market suspicions at a time when the usual suspects were very much being rounded up;
- and we have seen this maturation in the very large, less tangible reserves of credibility on which economies in the region have been able to draw in responding to difficulties in a more controlled way than has been possible in the past.

Latin America's relative insulation from the Asian typhoon tells us how far we have come. It can also, in important respects, tell us something about where the international community should be heading when it comes to building strong and stable financial markets.

It is no accident that Latin Americans have been prominent participants in the special G22 grouping that has met twice in recent months to discuss the longer term reform questions coming out of Asia. As this group and others involved with these issues will attest, we have a lot to do to make the global financial system more secure and resilient to crises. But I think we know what some of the answers are. And we know that Latin America is in many of these areas is, for once, a model to be emulated -- not avoided.

First, we know that we need to ensure there is greater transparency and openness in both the private and public sector around the world. No one in Argentina can now doubt the power of abundant information in helping to reduce risk and increase market confidence. Equally, while there are obvious questions of cause and effect, it is worth noting that 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.

Second, we know that we need all to work -- as the most recent Committee on Hemispheric Financial Issues meeting in Santiago in December committed every member to work -- 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 be sure, most Latin American economies have a way to go in building strong, open and competitive financial systems. And of course, a sound banking system means more than 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. But the change in Latin America is visible. And the rewards are clear.

Going forward, Latin America, which has far and away the greatest presence in global bond and equity markets of any emerging market region, needs to continue to set the pace: for example, by ensuring that every country, not just seven subscribes to the International Monetary Fund's Special Data Dissemination Standard, and by promoting effective regional surveillance, built on the principle that friends warn friends when trouble is near.

Finally, we should be looking to see this hemisphere lead the way in finding creative solutions to the third, most difficult long-term reform challenge we face in responding to all the financial crises we have seen in recent years. Namely, the challenge of finding 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.

II. Continental Integration

Continued integration is one of the greatest challenges we face in this hemisphere as we approach a new century. This integration has so many dimensions:

- it is about the volume of phone calls between the United States and the Latin America growing 150 percent in this decade -- faster than to any other part of the world; and phone calls just to South America growing 170 percent;

- it is about the travel between the United States and Latin America growing nearly twice as fast as travel with the rest of the world;

- it is about American students -- North and South -- traveling and studying in other parts of the hemisphere in ever greater numbers;

- it is about a near-doubling in the stock of United States foreign direct investment in Latin America since the start of the decade and an even sharper rise, albeit from a low base, in Latin American FDI in the United States during this period;

- and it is about trade: the reduction of cumbersome customs regulations and border restrictions, the 30-odd bilateral and multilateral trade agreements that have been signed in this hemisphere and, ultimately, the creation of a Free Trade Area of the Americas.

It is critical that when we think about integration we do not allow it to be measured by solely in terms of trade agreements. But as the President underlined in Santiago last month, it will be very important to move ahead with the negotiations for the FTAA in the years ahead. This will eventually have to mean Congress granting the President the customary Fast Track negotiating authority that has been afforded to Presidents in the past -- but the early critical negotiations that laid the round for the for the Uruguay Round of the GATT took place without Fast Track. And the same can and must be true of the FTAA.

The FTAA will be important not just for the future of this region but also because it will in many ways be the template for the major global challenge at the dawn of a new century: forging the healthiest, sturdiest possible relationships between the mature economies and the emerging markets. And an important part of that challenge will be about ensuring that all the individual parts of the integration process add to the sum of the whole -- rather than subtracting from it.

With regard to trade, in particular, we will need always to think about FTAA and other regional subunits in terms of their potential to add to world trade. Trade agreements within the Americas that are trade creating have been and will always be welcomed. But they should not and will not be welcomed when they merely divert trade from one country or region to another. That cannot be the way forward for this hemisphere and it cannot be the way forward for the global economy.

III. The Challenge of Inclusion and Integration at Home

I have concentrated here on international policies -- the collective challenges we face in laying the foundations of a more integrated and prosperous continent. But these efforts are not separable from what we each do at home.

We now have government by the people across the hemisphere. What we still need to create is effective government for the people across the Americas. As a highly conservative commentator here in the United States has noted, people cannot hate their government and love their country.

While we are differently situated, many of the "second generation" challenges we face domestically are the same in North and South America:

- rapid, sustained growth demands high rates of national savings -- yet as nations very few of us save at rates close to those that most European or Asian economies achieve;

- growth must be inclusive if it is to endure -- yet America, North and South, is home to some of the highest rates of income inequality in the world and too many of our people are living on the margins;

- strong enforcement of legitimate law is critical to building a strong civil society, the key

to a vibrant democracy -- yet in many countries judicial systems remain fragile and in none is the "reinvention of government" complete.

Certainly, the United States cannot entirely exempt itself from these issues while a child born in Harlem has a smaller chance of living to the age of five and a smaller chance of graduating high school than a child born in Shanghai; and when more than 10 percent of Americans do not have a bank account and pay perhaps 10 percent at the local pawn shop to get every pay check cashed.

That is why President Clinton, President Zedillo, President Cardoso, President Frei and the other leaders chose so wisely in selecting education as the major theme of the Summit of the Americas in Santiago last month. Uniquely, education is something that can both increase the size of the pie and include more in its benefits -- ever more so as we move into a post-industrial world in which opportunity depends not on what people can lift but on what they can understand.

If achieving financial stability was the challenge of the latter years of this century, then investing in our people is our challenge of the next. Because in a global economy, it is the only way to maximize every nation's most unique and precious asset: its people.

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 of our 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. And too often our education systems are judged by the quantity of jobs they provide for teachers not the quality of the education it provides for our children. We need to focus on education in substance and not just in form.

The latest research into the functioning of the human brain confirms what common sense would suggest, that the time when mind is at its most plastic and open to knowledge and ideas is in the earliest years of life. That is why, even on the narrowest economic calculus, investing in broad-based primary education offers every country by far the largest economic returns of any public investment.

Universal access to and completion of quality primary education, and access to secondary education for at least 75 percent of all children were the aims the leaders committed themselves to in Santiago. Those commitments can and must be honored.

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. 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. In the wake of the Santiago Summit the IDB is committed to more than doubling the amount of new lending for primary and secondary education between 1998 and 2002 -- to $5 billion. At Santiago the bank was also requested to move to establish a special regional fund for education in the Hemisphere, to meet the special challenges which educating our continent will present.

Investing in people, developing strong civil societies and more inclusive nations really are common challenges of the nations of this hemisphere. And as the Summit underlined, cooperation across countries as well as within them will be an important part of the solution. If can continue the work of integration after the Santiago Summit just as it was continued after Miami, and we can continue to pursue the right policies, domestically and internationally, for strong and inclusive growth, I am convinced that the next decade really can be a special kind of time for this hemisphere. If this century was the American century, the 21st century can and must be the century of the Americas. Thank you.

PUBLIC DEBT NEWS

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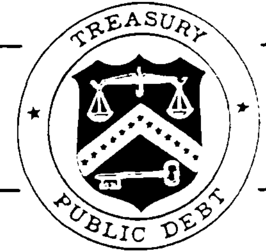

TREASURY SECURITY AUCTION RESULTS
BUREAU OF THE PUBLIC DEBT - WASHINGTON DC

FOR IMMEDIATE RELEASE
May 11, 1998

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Term:	91-Day Bill
Issue Date:	May 14, 1998
Maturity Date:	August 13, 1998
CUSIP Number:	912795AF8

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate 1/	Price
Low	5.000%	5.135%	98.736
High	5.010%	5.143%	98.734
Average	5.010%	5.143%	98.734

Tenders at the high discount rate were allotted 54%.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 42,398,117	$ 4,359,949
Noncompetitive	1,316,324	1,316,324
PUBLIC SUBTOTAL	43,714,441	5,676,273
Federal Reserve	3,069,485	3,069,485
Foreign Official Inst.		
Refunded Maturing	119,610	119,610
Additional Amounts	35,090	35,090
TOTAL	$ 46,938,626	$ 8,900,458

1/ Equivalent coupon-issue yield.

RR-2433

PUBLIC DEBT NEWS

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TREASURY SECURITY AUCTION RESULTS
BUREAU OF THE PUBLIC DEBT - WASHINGTON DC

FOR IMMEDIATE RELEASE
May 11, 1998

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Term: 182-Day Bill
Issue Date: May 14, 1998
Maturity Date: November 12, 1998
CUSIP Number: 9127945B6

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate 1/	Price
Low	5.160%	5.373%	97.391
High	5.175%	5.387%	97.384
Average	5.170%	5.383%	97.386

Tenders at the high discount rate were allotted 18%.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 31,763,825	$ 4,557,460
Noncompetitive	1,156,430	1,156,430
PUBLIC SUBTOTAL	32,920,255	5,713,890
Federal Reserve	4,100,000	4,100,000
Foreign Official Inst.		
Refunded Maturing	1,586,670	1,586,670
Additional Amounts	466,830	466,830
TOTAL	$ 39,073,755	$ 11,867,390

1/ Equivalent coupon-issue yield.

RR-2434

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR IMMEDIATE RELEASE
May 12, 1998

Contact: Public Affairs
(202)622-2960

MEDIA ADVISORY

Treasury Secretary Robert E. Rubin will be joined by ranking House Banking Committee Democrat John J. LaFalce (D-NY), and other House Banking Committee Democrats at a press conference today Tuesday, May 12 at 1:00 p.m., in room 2220 of the Rayburn House Office Building.

Secretary Rubin and Banking Committee members will discuss financial modernization legislation (H.R. 10), that is scheduled for floor consideration on Wednesday, May 13.

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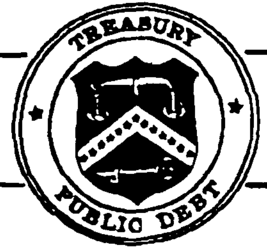
RR- 2435

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

PUBLIC DEBT NEWS



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TREASURY SECURITY AUCTION RESULTS
BUREAU OF THE PUBLIC DEBT - WASHINGTON DC

FOR IMMEDIATE RELEASE
May 12, 1998

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 3-YEAR NOTES

Interest Rate:	5 5/8%	Issue Date:	May 15, 1998
Series:	T-2001	Dated Date:	May 15, 1998
CUSIP No:	9128274E9	Maturity Date:	May 15, 2001
STRIPS Minimum:	$320,000		

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Yield	Price
Low	5.620%	100.014
High	5.639%	99.962
Average	5.633%	99.978

Tenders at the high yield were allotted 41%.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 31,177,500	$ 9,414,950
Noncompetitive	591,477	591,477
PUBLIC SUBTOTAL	31,768,977	10,006,427
Federal Reserve	2,270,117	2,270,117
Foreign Official Inst.	580,000	580,000
TOTAL	$ 34,619,094	$ 12,856,544

RR-2436

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EMBARGOED UNTIL 2:30 P.M.
May 12, 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 21, 1998. This offering will result in a paydown for the Treasury of about $1,850 million, as the maturing publicly held weekly bills are outstanding in the amount of $14,862 million.

In addition to the public holdings, Federal Reserve Banks for their own accounts hold $6,910 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 $2,014 million as agents for foreign and international monetary authorities, which may be refunded within the offering amount at the weighted average discount rate of accepted competitive tenders. Additional amounts may be issued for such accounts if the aggregate amount of new bids exceeds the aggregate amount of maturing bills.

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

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

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Attachment

RR-2437

HIGHLIGHTS OF TREASURY OFFERINGS OF WEEKLY BILLS
TO BE ISSUED MAY 21, 1998

May 12, 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	912794 4Y 7	912795 AR 2
Auction date	May 18, 1998	May 18, 1998
Issue date	May 21, 1998	May 21, 1998
Maturity date	August 20, 1998	November 19, 1998
Original issue date	August 21, 1997	May 21, 1998
Currently outstanding	$30,137 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 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

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EMBARGOED UNTIL 10:00 A.M. EDT
Text as Prepared for Delivery
May 13, 1998

TREASURY UNDER SECRETARY FOR DOMESTIC FINANCE JOHN D. HAWKE, JR.
SENATE BANKING SUBCOMMITTEE ON FINANCIAL INSTITUTIONS

Mr. Chairman, members of the Subcommittee, it is a pleasure to speak with you today about the Community Development Financial Institutions (CDFI) Fund. I am joined by Ellen Lazar, the new Director of the CDFI Fund.

The CDFI Fund is a critical component of our strategy to promote private sector-led growth in economically distressed areas. The Fund's primary mission is to expand access to credit and financial services in low income urban, rural, and Native American communities, areas where one of the biggest obstacles to economic growth is a lack of access to private sector capital. As you know, we have submitted proposed legislation to reauthorize the Fund. The legislation would make technical corrections in the existing law to reflect the status of the Fund within the Treasury Department, would extend the authorization for the CDFI Fund, and would make other amendments to increase the Fund's ability to help revitalize economically distressed communities.

Community development financial institutions are specialized intermediaries that serve economically distressed communities. They include credit unions, microenterprise funds, development banks, and equity or loan funds that share this common mission: providing financial services to people and communities typically overlooked by traditional financial providers. For many years, institutions such as these have defied conventional wisdom by making loans to people that could not get financing elsewhere, and these borrowers have repaid with interest. Often, CDFIs are the pioneers in their communities, making the leading edge investments based on their community knowledge and demonstrating to traditional lenders that these are viable markets. These CDFIs are expanding the reach of the private sector marketplace.

RR-2438

The role of the CDFI Fund is to further strengthen these institutions. The Fund provides equity, loans, grants and technical assistance to CDFIs so that they can attract more investors and depositors, and make more private-sector investments and loans to hard working Americans who have been for too long left behind. With CDFI, I believe we have a new, more market-driven approach to community development. By filling market niches and drawing mainstream financial institutions into low income communities through partnerships, CDFIs help to make our financial system work better for more Americans.

The CDFI Fund has two main programs: the core CDFI program, which assists CDFIs, and the Bank Enterprise Act (BEA) Awards program, which makes awards to financial institutions that demonstrably increase their lending and other financial services in distressed communities. The two programs are complementary and mutually reinforcing -- one working with leading edge CDFIs and the other supporting innovative banks. By working through local institutions, both programs respond to communities' individual financial services 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 over $77.6 million to 81 CDFIs and intermediaries around the country. The leveraging of the federal investment is strong. Although actual leverage numbers vary from institution to institution, let me give you one example of how leverage works in a community development credit union: The CDFI Fund investment must be matched at least one-to-one with non-Federal dollars. The Fund's investment and the match become part of the credit union's capital base, which enables it to raise additional customer deposits, all of which become credit union resources available for lending to its members. Industry-wide, community development credit unions have a loan-to-capital ratio of 6.65 to 1, so each dollar of capital supports $6.65 of loans by the credit union. Because each federal dollar invested in a credit union must be matched by another non-federal dollar, a $1 investment by the Fund has the capacity to generate $13.30 in loans by the credit union.

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.

Earlier today, you heard from Self-Help of North Carolina, which operates a credit union and a venture capital fund that secured $3 million from the Fund. I recently visited Self-Help and some its borrowers, and their work is enormously impressive. I saw first hand how a young man who had been running a marginal fresh fish business, was able to get a $1,000 micro-loan from Self-Help to buy a fish fryer and thereby offer more fast food menu choices to his customers. His business began to grow, and now he employs two full-time and

two part-time helpers. He has been able to expand by buying another fryer and a stove, and now this determined young man wants to borrow $15,000 to purchase a refrigerated truck that will enable him to pick up his own fish. We often forget how much difference even a very small loan can make for a small business entrepreneur with creativity and a drive to be financially successful, and that's one of the things that CDFIs can do very well.

I also had the opportunity to visit a low-income neighborhood in Durham, where Self-Help was rehabilitating rental properties and selling them back to former tenants. I spoke to a minister there who told me that just a few years ago, no one dared to sit on their front steps or go down the street to the store for fear of becoming victims to drug-trafficking violence. But with funding from Self-Help and other sources, the neighborhood is now beginning to turn around. Houses are being repaired, and families have been given the opportunity to own their own homes for the first time. It has made the neighborhood safer, and has encouraged the homeowners to become more involved in their community.

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.

Though the CDFI Fund has accomplished much in a short time, as with any new organization, there have been some growing pains. In my judgment, we have dealt with those problems thoroughly and effectively, and they are behind us. In fact, the Fund was recently given an unqualified audit of its financial statements 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. (I am attaching a chart showing exactly where CDFI stands in its efforts to cure those deficiencies.) More broadly, let me emphasize that congressional oversight has been useful in helping the Fund to strengthen its internal controls, and we will continue to improve procedures as this program grows and matures.

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.

As we discuss the work of the fund today, we should keep in mind that the program is only three years old. And the nature of its work is such that it necessarily takes time for the impact to be felt. Moreover, we are beginning a new impact analysis that will provide important date on how the work of the Fund is benefitting communities.

Mr. Chairman, the Fund's vision for stimulating private sector investment in distressed areas makes sense, 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 enact the CDFI Fund's reauthorization, so that CDFI can use its innovative, private-sector oriented approach to 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.

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DEPARTMENT OF THE TREASURY
COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS (CDFI) FUND
CORRECTIVE ACTION PLAN AND STATUS REPORT

FY 97 Material Weaknesses	KPMG Recommendations	Corrective Action Plan	Current Status as of 5/12/98
1.A Absence of a formal Federal Managers' Financial Integrity Act (FMFIA) program to identify and design corrective actions for material weaknesses	Establish a formal management control process and designate the Deputy Director for Management/CFO as the Fund's Management Control Officer	The Director will designate the Deputy Director for Management/CFO as the Fund's Management Accountability and Control Officer and a formal FMFIA/FFMIA program will be implemented during the last half of FY 1998. The program will include an identification of the Fund's Section 2 and 4 assessable units and a schedule for vulnerability assessments by Fund managers. The Financial Manager will develop a Monthly Accountability Plan (MAP) for publishing and reconciling monthly financial and management information and accompanying analysis. (Target completion date: 9/30/98)	The Deputy Director for Management/CFO will be designated the Fund's Management Control Officer in May 1998. A new Financial Manager entered on duty in April 1998 and began the process of drafting a management accountability order, identifying assessable units, and scheduling vulnerability assessments during the third and fourth quarters of FY 1998.
1.B Lack of a structured system of documentation for award files	Finalize the awards file maintenance program and develop a "file contents checklist" to identify all documents that should be included in the awards files	Awards Manager will finalize the awards file maintenance program and develop a "file content checklist". (Target completion date: 9/1/98)	Staff will begin converting all official award files to the new system described in Policy Memo No. 1 beginning in April 1998. A new checklist will be used to confirm file contents and each file will be reviewed and signed by the Awards Manager. The Awards Manager is currently performing this review function prior to any award disbursement during FY 1998.
1.C Vacant positions for oversight of awards programs		The Fund will recruit and hire an Awards Manager and other support personnel to adequately provide oversight to the awards programs. (Target completion date: 9/30/98)	An Awards Manager entered on duty in January 1998. The Awards Manager is currently providing oversight for all award closings and award disbursements during FY 1998. Requirements for additional awards administration support staff are being developed, and an experienced staff of awards administration support personnel will be on duty before the end of FY 1998.

FY 97 Material Weaknesses	KPMG Recommendations	Corrective Action Plan	Current Status as of 5/12/98
1.D Lack of formal post-awards monitoring procedures	Develop formal, ongoing monitoring procedures, and related forms, and place them into operation	The Awards Manager, in partnership with the Fund's program staff, will develop formal, ongoing monitoring procedures, and related forms, and place them into operation during the third quarter FY 1998. (Target completion date: 9/1/98)	The Awards Manager is currently monitoring reporting compliance for all awardees that have assistance agreements. The Awards Manager will also conduct an assessment of the Fund's monitoring needs from both a compliance and program review perspective in conjunction with the program staff. Policies and procedures will be developed and in the third quarter of FY 1998 with full implementation by the fourth quarter FY 1998.
1.E No formal review of monthly financial statements, accounting records, budgetary reports, and supporting reconciliations	Establish a formal process for preparing, reviewing and distributing monthly financial statements, including specific procedures for follow-up on any issues identified during the process	Develop procedures for reviewing financial data processed and statements and reports prepared by the Bureau of Public Debt's Franchise Service on behalf of the Fund. (Target completion date: 9/30/98)	A monthly accountability plan will be developed which will require monthly preparation of financial statements and review of budget reports and supporting reconciliations prepared by the Franchise Service on behalf of the Fund. The Fund will meet with the Franchise Service in May 1998 to validate processes and procedures. The Fund has prepared financial statements for March, 1998 and will continue to prepare and reconcile financial statements for each month through the remainder of FY 1998.
1.F Vacant positions for Chief Financial officer and Controller	Develop additional financial management positions and recruit personnel to fill	Hire a Financial Manager (controller) and a budget analyst as soon as possible.	A Financial Manager entered on duty in April 1998. The Fund's Financial

DEPARTMENT OF THE TREASURY
COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS (CDFI) FUND
CORRECTIVE ACTION PLAN AND STATUS REPORT

FY 97 Material Weaknesses	KPMG Recommendations	Corrective Action Plan	Current Status as of 5/12/98
1.G Inadequate delineation of organization responsibilities within the CDFI Fund		Prepare an organization plan in accordance with Treasury Directive 21-01 to properly delineate the Fund's organizational responsibilities and clearly define the Fund's mission and functions statements. (Target completion date: 5/1/98)	The Fund's proposed organizational plan was submitted to the Department on February 18, 1998 and approved on April 13, 1998. The approved plan includes functional statements and a delineation of organizational responsibilities for all offices within the Fund. The approved plan also includes organization charts for both the Fund and the Fund's placement within the Office for the Under Secretary for Domestic Finance.
1.H General lack of documented policies and procedures	Develop policies and procedures for an awards administration and monitoring function, in the first half of fiscal year 1998	The Awards Manager will develop and implement appropriate policies and procedures for the Fund's awards administration function. (Target completion date: 9/30/98)	Policy memos will continue to be issued throughout the remainder of FY 1998 to implement all aspects of awards administration. The following Awards Administration Policy Memos have been issued to date: Memo No. 1, dated April 2, 1998

FY 97 Material Weaknesses	KPMG Recommendations	Corrective Action Plan	Current Status as of 5/12/98
	Develop formal, ongoing monitoring procedures, and related forms, and place them into operation	The Awards Manager, in partnership with the Fund's program staff, will develop formal, ongoing monitoring procedures, and related forms, and place them into operation during the third quarter FY 1998. (Target completion date: 9/1/98)	The Awards Manager is currently monitoring reporting compliance for all awardees that have assistance agreements. The Awards Manager will also conduct an assessment of the Fund's monitoring needs from both a compliance and program review perspective in conjunction with the program staff. Policies and procedures will be developed and in the third quarter of FY 1998 with full implementation by the fourth quarter FY 1998.
	Continue the design and development of a portfolio monitoring database	The Fund's Award Manager will continue the design and development of a portfolio monitoring database. (Target completion date: 9/30/98)	The Awards Manager is currently reviewing data requirements and seeking information on off-the-shelf database systems that can be adapted to the Fund's awards administration and monitoring processes and requirements as well as program evaluations. Several systems have been reviewed and the Fund plans to begin the system analysis and development during the third quarter of FY 1998.
	Track the receipt of all required reporting activities for all the CDFI Fund awardees since the inception of the Fund	The Awards Manager will track all awardee reporting requirements since the inception of the Fund and contact all awardees that are delinquent. (Target completion date: 9/30/98)	The Awards Manager is currently tracking all incoming awardee reporting requirements for both quarterly and annual reports and sending delinquent letters within two-days of the required due date. A status report is being maintained on an Excel spreadsheet. In the third quarter a new Monitoring Control Form will be completed for all incoming reports. The Awards Manager will focus on audit and compliance monitoring and the program staff will focus on performance monitoring and review all financial status and program performance reports.

DEPARTMENT OF THE TREASURY
COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS (CDFI) FUND
CORRECTIVE ACTION PLAN AND STATUS REPORT

FY 97 Material Weaknesses	KPMG Recommendations	Corrective Action Plan	Current Status as of 5/12/98
	Determine and communicate audit guidelines for the CDFI Fund awardees to follow	The Fund's Financial and Awards Managers will prepare written audit guidelines for the Fund awardees to follow. These written guidelines will be provided to the awardees with their completed assistance agreements. (Target completion date: 9/30/98)	This task will be started in May 1998. Written guidelines will be prepared and included in all awardee assistance agreements issued in the fourth quarter of FY 1998.
2. Liabilities incurred as a result of the awards process had not been recorded by the CDFI Fund as earned by the awardees, but rather as the awards were disbursed.	Record payables for grant awards and related grants expense at the point in time when the awards are earned by the awardees, rather than when disbursed in cash.	New process flow procedures and general ledger posting transactions will be developed to ensure proper recording of grant award payables and expenses. (Target completion date: 9/1/98)	The Fund is working with the Bureau of Public Debt Franchise Service to develop process flow procedures and initiate the use of different general ledger posting transactions for properly recording grant award payables and expenses.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED UNTIL 1:30 P.M. EDT
Text as Prepared for Delivery
May 13, 1998

TREASURY ASSISTANT SECRETARY FOR FINANCIAL MARKETS
GARY GENSLER
SENATE DEMOCRATIC TASK FORCE ON TOBACCO

Chairman Conrad, and distinguished members of the Task Force, I am pleased to appear before you today. I joined the Treasury Department last year, after working for 18 years on Wall Street. As a partner of the Goldman Sachs Group, L.P., I was fortunate to have a variety of experiences that help inform my understanding of bankruptcy issues in the tobacco industry. During the 1980's and early 1990's, I was a senior professional in the firm's merger effort. In that capacity, I valued companies and advised clients on how to assess businesses. That is what I hope to do here with you today. After I left the merger department, I gained both trading and international experience as the head of Goldman Sachs' debt and currency trading efforts in Japan. As a bond trader, I assessed how world and market events affected the valuation of bonds and their underlying credits. That experience also bears upon the views that we will be presenting today.

Jon Gruber, Deputy Assistant Secretary for Economic Policy, is here with me to help address any of your questions. Mr. Gruber has been with the Treasury Department for the last year, and is also a professor of economics at the Massachusetts Institute of Technology.

My testimony will consider the effect of comprehensive tobacco legislation on the risk of insolvency in the tobacco industry. To best understand such effects, I will begin by providing the Task Force with a brief overview of the tobacco industry and its business characteristics. I think that you will share our conclusion that the industry is currently financially strong and viable, but not without risk. This financial risk, which has been endemic to the industry for many years, arises from uncertainties related to litigation concerning the companies' business practices. Subsequently, I will turn to proposed legislation and its implications for the tobacco industry's overall financial health. Finally, I will make some observations about how bond investors assess the tobacco industry's credit risk.

1. Industry Characteristics

The U. S. tobacco industry is financially strong. It is comprised of four major

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companies: B.A.T. Industries, Loews, Philip Morris, and RJR Nabisco. (A fifth company, Liggett Group, has a market share of just over one percent.) As presented in Figure A, these companies had combined revenues approaching $150 billion last year. They had operating earnings in excess of $23 billion. Their combined stock market value is $145 billion. By all of these measures, this is a large and viable industry. It also is concentrated as an oligopoly among only a handful of players.

These companies also are well-diversified. As presented in Figure B, only one-third of the industry's operating earnings is derived from domestic tobacco. International tobacco sales accounted for 27 percent of operating earnings. Moreover, each of the companies in the industry has diversified holdings in other businesses. With interests in food, beer, financial services, and hotels, the industry owns such familiar companies as Kraft Foods, Miller Brewing, Nabisco, CNA, and Loews Hotels. These non-tobacco interests accounted for 39 percent of earnings last year. As can be seen, the industry does not, by any means, rely solely on domestic cigarette sales to stay profitable.

2. Business Characteristics

The tobacco companies share several business characteristics.

First, they enjoy significant brand loyalty from their customers. With such strong consumer franchises, the companies benefit from significant barriers to entry. Moreover, the industry's limited potential for technological innovation helps to maintain these barriers. In addition, potential marketing restrictions are likely to raise these barriers and strengthen their franchises.

Second, cigarette sales are highly concentrated among the top brands. The leading product, Marlboro, accounts for approximately one-third of all domestic cigarette sales. The top dozen brands together account for 80 percent of domestic cigarette sales.

Third, the tobacco business has very high operating margins. Loews, Philip Morris and RJR had combined operating earnings of 38 cents on every dollar of domestic tobacco sales last year. Even the smallest among them, Loews, earned 32 cents on every dollar of tobacco sales. These generous industry margins are over three times the average profits enjoyed by American industry as a whole.

The industry benefits from advantages on both the revenue side and the cost side of its business. The strength of brand names and the industry's oligopolistic nature give tobacco companies substantial pricing flexibility. At the same time, the industry's cost structure is largely variable (i.e., directly related to output), allowing the industry to more readily adapt to changing environments. Approximately two-thirds of costs are selling, general and administrative costs. Dominated by distribution, marketing, and advertising costs, these are largely variable. Manufacturing costs, which make up the remaining one-third of costs, also are dominated by variable costs, such as the purchase of raw materials and packaging.

Fourth, the industry has provided smooth returns over many years. Contrasted to many

industries, the tobacco industry has had relatively modest volatility in revenues or earnings. This is especially relevant in analyzing insolvency risk.

Fifth, the tobacco companies recently have experienced growth in international sales. The companies are profitable in many countries, despite having lower market shares in foreign markets. More importantly, they are profitable even in countries where cigarette prices are significantly higher than in the U.S. For example, they profitably compete for sales in the U.K., Denmark and Norway, where the average price for a package of cigarettes is more than twice as high as the price in the domestic market. Under most estimates of price increases under the proposed legislation, prices in the United States are not expected to reach the current levels in many foreign countries.

On the other hand, however, the companies have been confronted with declining demand in the U.S. Over the last five years, domestic demand has dropped by more than one percent per year.

3. Potential Legal Liabilities

As we have reviewed, the industry is currently financially strong and viable. It is not, however, without risk. The tobacco companies face one major business uncertainty: the potential for incurring substantial legal liabilities. This financial risk, which has been a characteristic of the industry for years, emanates from uncertainties related to litigation concerning the companies' business practices. Although the industry has lost only one lawsuit in its history, the risk of a major damages award creates uncertainty that must be factored into any assessment of financial prospects. The various expenses associated with settling and defending lawsuits also affect the profitability of the tobacco companies.

As stated earlier, the risks associated with potential legal liability have confronted this industry for many years. Litigation risks were endemic to the industry before any comprehensive tobacco legislation was ever contemplated, and they remain an independent source of business uncertainty notwithstanding the proposed legislation. Even in this environment, however, the combined stock market value of the tobacco companies has risen almost 50 percent in the last three years.

4. Proposed Legislation

I would like to now turn to the subject of comprehensive tobacco legislation and discuss some of the key features as contemplated.

Price Provisions

The central goal of proposed legislation is to lower youth smoking and the volume of cigarette sales in the United States. This goal is to be achieved in a variety of manners, including increasing the price of tobacco products. S. 1415, as reported out of the Commerce Committee, requires cigarette manufacturers to make substantial payments to the Government, and mandates that the costs of such payments be passed through to consumers. As Deputy Secretary Summers has testified, the Administration estimates that the provisions will raise the price of cigarettes by

$1.10 per pack, in constant dollars, by the year 2003, using pricing assumptions that ensure youth smoking targets will be met. Given other underlying trends in cigarette pricing, it is anticipated that the real price of cigarettes will rise to approximately $3.20.

Despite the size of the required payments, the proposed legislation contains three classes of provisions that protect the industry against a sharp drop in profitability. First, as noted, the legislation provides for consumers, not manufacturers, to finance the industry's payments. The pass-through provisions in the legislation ensure that the payment costs do not come directly out of tobacco company profits.

Second, industry payments are allocated by market share, and adjusted for sales volumes declines after the fifth year. By taking into account individual companies' ability to pay, these mechanisms further ameliorate the effects on industry profitability. In addition, a number of proposals phase in the industry payments over five years. This allows the industry to adjust over time.

Third, both the original Attorney Generals' proposed settlement and S. 1415 contain a number of features that tend to maintain the market share of existing industry participants. For example, the legislation imposes costs not only on current market participants, but also on new entrants and importers.

Further Provisions

The Commerce Committee bill further attempts to reduce youth smoking through other means, such as restricting the access of youth to tobacco products, and restricting marketing to youth. It also imposes surcharges if the industry does not meet the youth-smoking reduction targets that the companies agreed to with the Attorneys General.

Legal Liability Provisions

Another central feature of comprehensive legislation is the legal liability protections that it provides to the industry. The comprehensive legislation would settle the 41 outstanding state suits against the industry, as well as a handful of local suits. The terms of the legislation also would apply to new entrants to the industry, and to international competitors. It thus resolves significant legal uncertainty, and provides broader coverage than merely settling currently outstanding legal claims. National legislation that covers all potential participants in the industry ensures that the industry is able to pass settlement costs on to consumers.

Comprehensive legislation also provides for limits on the industry's liability. Such limits further reduce the legal uncertainty facing this industry. The extent of the reduction in risk, however, depends on the details of the limits themselves.

5. Implications of Legislation for Bankruptcy Risk

I will now turn to the question of how comprehensive tobacco legislation will affect the tobacco industry's financial health. In summary, we do not believe that the proposed legislation will

materially affect the tobacco companies' risk of insolvency. Even under conservative assumptions with respect to price, domestic sales volume and operating margin, the tobacco industry will remain very profitable. The companies will continue to have earnings that are more than sufficient to cover interest payments. In short, comprehensive tobacco legislation poses less risk of bankruptcy for this industry than pending and future litigation, or simply the vicissitudes of the market.

The Effect of Price Increases on Sales Volume

Our analysis of the proposed legislation focuses on its effects on pricing, sales volume, and operating margins in the tobacco industry. As previously outlined, the proposed legislation contains several provisions that provide for the pass-through of payments to prices. The attendant price increases will lead to a decline in sales volume. We estimate that for every 10 percent increase in price, there is a 4.5 percent reduction in product demand. As a result, a $1.10 price increase, for example, would lower sales volumes by about 22 percent.

Some research analysts from Wall Street have predicted that the price increases caused by the proposed legislation will be greater than this analysis, and other legislation that has been proposed has contemplated greater price increases as well. If the price increase were higher, say $1.50, there would be a projected 30 percent decline in domestic cigarette volumes.

The Effect on Operating Earnings

Operating earnings are affected not only by reductions in sales volume, but also by declines in operating margins. As previously noted, the tobacco industry's cost structure is largely variable, allowing it to more readily adapt to changing environments. Thus, it is likely that the proposed legislation would cause the industry's margins to decline only modestly. Based upon the relationship between sales volume and operating margin that currently exists within the industry, we estimate that a 22 percent decline in sales volume will lead to a decline in operating margins of approximately 15 percent. Under those circumstances, the combined effect of declining domestic sales and operating margins would lead to only a 12 percent decline in the total operating earnings of the industry. Accordingly, the tobacco companies would remain more profitable than American industry as a whole.

As noted earlier, some Wall Street research analysts project larger volume declines than 22 percent, and some proposed legislation contemplates larger volume declines as well. Even if that were the case, the domestic tobacco businesses of the various companies would remain profitable. Using margin assumptions more conservative than above, a 30 percent decline in volumes would lead to only a 15 percent decline in industry operating earnings. The industry would still have over $4 billion in domestic tobacco operating earnings and approximately $20 billion in overall operating earnings.

Corporate Debt Levels

The tobacco companies paid approximately $3 billion of interest payments last year on their outstanding debt. As noted, the industry had operating earnings of over $23 billion. Thus, the

industry earned enough to cover its interest more than seven times. Indeed, all of the major participants in the tobacco industry have operating earnings from sources other than domestic tobacco -- such as international sales and non-tobacco products -- that far exceed annual interest payments. Thus, even with significant reductions in domestic tobacco earnings, these firms should be able to meet their interest obligations. Moreover, the asset values of the non-tobacco businesses of Phillip Morris, RJR Nabisco, and Loews, are greater than the companies' outstanding debt. For instance, in the case of RJR Nabisco, the company's 80 percent stake in Nabisco is worth approximately $10 billion, while the company's outstanding debt (excluding Nabisco) is just over $5 billion.

6. Bond Market Investors

I now will discuss how bond investors assess the industry's credit risk. Bond investors are an important barometer, as they risk their money based on their assessment of potential risks and rewards. In addition, they are not easily swayed by politics, rhetoric or theory.

By way of background, corporate bonds trade at yields that are higher than the Treasury's borrowing rate. This interest rate differential is due to many factors, but is primarily associated with the risk of corporate default. Investors refer to this interest rate differential as a "credit spread." The greater the "spread" above Treasuries, the greater the credit risk associated with the company.

In addition to assessing the risk of companies in relation to the Treasury, investors also make judgments about the risk of companies in relation to each other. Investors assess the relative risks of corporate bonds in terms of maturities and company-specific risks. The yield that investors demand on a particular firm's bonds reflects what investors believe to be the credit risk of the firm. Investors generally demand a higher yield if they perceive that the credit risk is more significant. Conversely, they will accept a lower yield if they believe that the credit is safer. Thus, the yield demanded by investors for a particular bond will change as perceptions about the company's creditworthiness change.

Figure C illustrates how bond investors assessed the credit risk of the tobacco companies at three points in time. We looked at trading levels (I) prior to the Attorney Generals' proposed settlement, (ii) just after the Attorney Generals' proposed settlement, and (iii) during the several days after the Commerce Committee voted S. 1415 out of committee. The numbers in the columns represent the additional yield that investors required to buy the tobacco companies' bonds (relative to an index of other relevant corporate bonds). Where investors demanded higher yields, they perceived higher levels of risk.

A number of important observations can be made from this information. First, investors viewed the credit risk for all of the companies in early April 1998 as about the same as they did one year earlier. This is evidenced by the fact that the additional yield required by investors did not changed materially. In fact, investors were willing to purchase the industry's bonds at modestly lower yields than prior to the Attorney Generals' proposed settlement. Accordingly, S. 1415 does not appear to have had any negative effect on investor perceptions of the tobacco companies' credit risk. If anything, these firms are now viewed by investors as slightly safer than they were one year ago.

Second, after the Attorney Generals' proposed settlement, the bonds of one of the companies, RJR, improved significantly. This suggests that investors saw the Attorney Generals' proposed settlement as lowering the credit risk for this company. That yield advantage was reversed as the enactment of the June 20 settlement became less likely. But, to reemphasize, in the wake of the Commerce Committee vote, the market's assessment of the bankruptcy risk of RJR, as well as the other tobacco companies, was no different than it was before discussions of comprehensive tobacco legislation were made public. The risk was, and remains, low.

Third, the interest rates required on the debt of all but one firm in this industry are very close to those required on the most financially secure businesses in America. The one company for which investors require an additional premium, RJR, has greater levels of debt. This is primarily due to the debt left over from RJR's leveraged buy-out completed in 1989. To give you some context, however, even RJR, which is the riskiest of the tobacco companies, has a yield that is similar to well-known companies such as Westinghouse and K-Mart.

7. Conclusion

In conclusion, the tobacco industry is financially strong and viable. Comprehensive tobacco legislation includes mechanisms to protect that financial condition. The legislation assures that payments are made by consumers rather than the tobacco manufacturers, and makes adjustments according to individual companies' ability to pay. The industry has substantial operating earnings to bear any decline in earnings due to price increases caused by the legislation. The industry also has significant non-tobacco assets that are currently valued well in excess of their debt. As previously noted, tobacco companies for years have faced substantial legal uncertainties related to their business practices. Comprehensive tobacco legislation does not increase these existing risks. Lastly, S. 1415 does not appear to have any material effect on bond investors' perceptions of the tobacco companies' credit risk.

While there are commercial risks facing the tobacco companies, as there are facing all companies, we do not see any reason to expect that the pricing effects of comprehensive tobacco legislation would materially affect these companies' risk of insolvency. They should be able to continue to operate profitably in the United States and abroad.

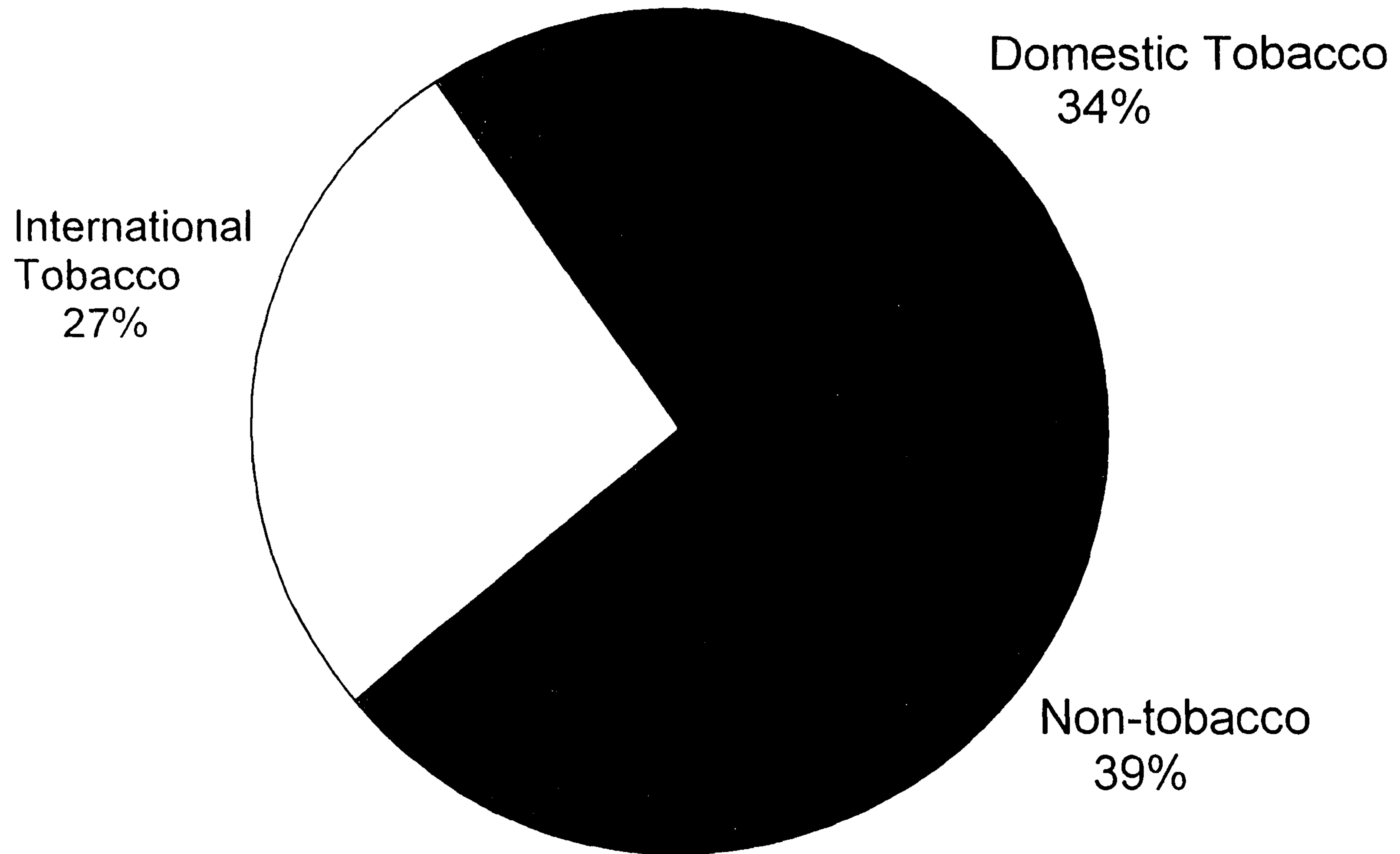
Tobacco Industry
1997 Results
(billions)

	Sales	Operating Earnings*
B.A.T. Industries	$ 39.4	$ 4.3
Loews	20.1	2.2
Philip Morris	72.1	13.7
RJR Nabisco	17.1	3.4
TOTAL	$148.7	$ 23.6

*before unusual charges.

Figure A

Operating Earnings
Tobacco Industry*



*Loews, Philip Morris, & RJR Nabisco.

Figure B

Bond Yields
Compared to Market

	Pre-AG	Post-AG	Post-Commerce
B.A.T. Industries	+0.17%	+0.10%	+0.07%
Loews	+0.10	+0.09	-0.01
Philip Morris	+0.04	+0.08	-0.01
RJR Nabisco	+0.16	-0.11	+0.05

Note: Average bond yields for each of these companies were compared with indexes of corporate bonds which trade similarly. The reference indexes were groups of corporate bonds rated by Moody's as follows: B.A.T. (A2); Loews (BBB2); Philip Morris (BBB3); RJR Nabisco (BB3).

Figure C

DEPARTMENT OF THE TREASURY

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May 13, 1998

TREASURY DEPUTY GENERAL COUNSEL NEAL S. WOLIN
SENATE DEMOCRATIC TASK FORCE ON TOBACCO

Thank you very much, Senator Conrad and distinguished members of the Task Force. I am 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 we all agree, the prospect of comprehensive tobacco legislation is an issue of enormous consequence to the health and economic well-being of the American people. That is why the Administration looks forward to continuing to work with Congress to enact comprehensive legislation this year.

I think we all share a common and very strong interest in assuring that the enactment of tobacco legislation will not result in either a domestic black market or the smuggling of tobacco into the United States. 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.

Designing an effective system to combat smuggling will depend on the other provisions that are included in tobacco legislation. For example, incentives to smuggle are likely to be sensitive to the details of such legislation. Nonetheless, we are convinced that the creation of a sound 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 that we will be able effectively to police any leakages that do take place. Treasury already licenses tobacco manufacturers and export bonded warehouses in connection with the collection of tobacco excise taxes. We believe that such licensing should be extended to the other entities at 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 the Commerce Committee bill. To be effective, a system must include the following elements :

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- **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 can be done at the State level. Licenses would be issued based on certain clearly specified criteria and could be revoked or suspended for specified violations. Those conducting business without a license would be subject to penalties. Licensed entities would only be authorized to sell tobacco products to other licensed entities or purchase tobacco products from other licensed entities. The sale or distribution to any entity that is unlicensed would be unlawful.

- **Second**, legislation – and this is a critical point– should require the effective 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 system should include penalty and administrative provisions that will deter would-be smugglers and will allow for effective, efficient and uniform enforcement of controls over distribution. Simply stated, those contemplating entering the black market must believe that the chances of being caught are high, and that the cost of getting caught will exceed the profits from smuggling.

Under such a system, tobacco products would move through legitimate channels. Most importantly, such channels would not be open to America's youth.

A licensing system for tobacco products such as that I have just described would be similar to the way the Federal Government has effectively regulated alcoholic beverages for over sixty years and would incorporate the years of experience we have in administering that system. In addition, all states currently regulate their alcohol retailers. The system in place has allowed for commerce in alcoholic beverages while effectively curtailing trafficking in illicit, non-tax paid products.

Current federal 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. We support amendments to the CCTA that would, among other things, expand the scope of the law to several tobacco products in addition to cigarettes, reduce the quantity of tobacco products necessary for a violation, apply the CCTA to states that do not require a tax stamp, and provide

for forfeiture of proceeds of CCTA violations. These amendments would enhance the Treasury Department's mandate to control the unlawful trafficking in tobacco products to avoid State tobacco taxes.

With the necessary regulatory provisions in place to deal with potential smugglers, 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 losing their cap on liability risk) and public opprobrium. Indeed, it is hard to imagine that in the context of comprehensive tobacco legislation, 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 already has made a substantial investment in the introduction of non-intrusive inspection systems and other equipment needed to detect the 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 for suggesting that comprehensive tobacco legislation would 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 in the same way or to the same extent as commerce 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, and this is a critical point, exist without having in place a closed distribution system like the one I described earlier. If anything, the introduction of such a closed distribution system would be expected to have the collateral benefit of substantially reducing existing interstate diversion of tobacco products.

The Canadian experience is 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.

Second, 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. Indeed, the International Association of Chiefs of Police and the Major Cities Chiefs of Police believe that with the proper regulatory scheme in place, tobacco smuggling can be controlled. The International Association of Chiefs of Police have stated that "[p]reventing the creation of a tobacco black market will be a difficult task, but one that federal, State, and local law enforcement can achieve if we work closely with one another." As ATF Director Magaw testified on April 30 before the Senate Judiciary Committee: "The fear of potential unlawful trafficking in tobacco products should not be a reason for failing to act on these issues because there are workable solutions. . . . [O]ur experience in regulating alcoholic beverages shows that unlawful trafficking can readily be controlled."

As the President has said, "we stand on the verge of one of the greatest public health achievements in our history -- an historic triumph in our fight to protect America's children from the deadly threat of tobacco." We look forward to working with Congress on this legislation in a general and its anti-smuggling provisions in particular.

Thank you, Senator.

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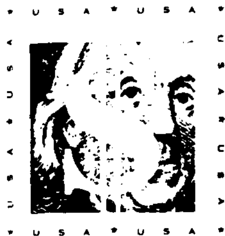


NEW DESIGNS FOR YOUR MONEY

Introduction of the Series 1996 Currency

The Series 1996 U.S. currency series incorporates new features designed to improve the security of our currency. The Series 1996 $20 note will be introduced in the fall of 1998. The new $50 note was introduced in October 1997, and the $100 note was introduced in March 1996. Lower denominations will follow. There will be no recall or devaluation of U.S. currency already in circulation; the United States always honors its currency at full face value, no matter how old.

The issuance of the Series 1996 $20 note has special importance because it is the first redesigned note that is widely used in the United States. It is the most often used of the larger denomination notes, and is commonly distributed through Automated Teller Machines (ATMs). All users of U.S. currency should be familiar with the appearance and new security features of the new notes. People who use U.S. currency are the first line of defense against counterfeiting; cash handlers and consumers should examine all notes carefully to guard against counterfeits.

The new Federal Reserve $20 notes will be phased into circulation, replacing older notes as they reach the banking system. This multi-year introduction of the new series is necessary because of the time-intensive printing process and because a sufficient inventory of new notes must be available when the new note is issued to ensure its worldwide availability.

In 1996, the Federal Reserve System and the U.S. Treasury Department began a worldwide public education campaign with two primary objectives: (1) to communicate to the general public that there will be no recall or devaluation; and (2) to provide information that will enable the public, law enforcement personnel, central banks, depository financial institutions, and other cash handlers to authenticate the new series notes.

History of the New Series

Until the late 1920s, U.S. currency was redesigned frequently. There also were several types of notes in circulation: United States Notes, National Bank Notes, and Silver Certificates. Since the introduction of the Series 1928 Federal Reserve Notes, changes in the design have not affected the overall architecture of U.S. currency. This includes the use of microprinting and a security thread in Series 1990 and later notes.

The counterfeit-deterrent features added in Series 1990 were the first step in responding to advances in reprographic technologies. Although these features have proved effective and will be retained, additional measures are necessary to protect U.S. currency against future threats posed by continued

improvements in copy machines, scanners, and printers. The new design, beginning with Series 1996, is the culmination of a five-year study aimed at staying ahead of the counterfeiting threat and is part of a continuing process to protect U.S. currency. At the same time, the redesign process has provided an opportunity to incorporate features that will make U.S. currency more readily identifiable, especially by the low-vision community.

The process began with the New Currency Design Task Force, which comprised representatives of the U.S. Treasury Department, Federal Reserve System, U.S. Secret Service, and the Bureau of Engraving and Printing (BEP). The Task Force made its recommendations to the Advanced Counterfeit Deterrence Steering Committee, also composed of representatives of the Treasury Department, Federal Reserve, Secret Service and BEP. Based on a comprehensive study by the National Research Council (NRC) issued in 1993, the Steering Committee then made recommendations for the new design and security features to the Secretary of the Treasury, who has statutory authority to approve such changes.

More than 120 security features were examined and tested, including those submitted in response to a BEP solicitation, those used in other currencies, and those suggested by the NAS. Evaluation criteria included impact on security, proven reliability, ability to be manufactured in large quantities, and durability over time. Among the features evaluated were holograms, color shifting films, thread variations, color patterns, and machine-readable enhancements. The strategy of the Design Task Force was to incorporate as many features as are justifiable. The security features ultimately selected have proved successful in other countries as well as in test environments at BEP and the Federal Reserve, and since their incorporation into U.S. currency have been an effective deterrent to counterfeiters.

In its second report, the NAS evaluated features to help those with low vision differentiate between currency denominations. These included variations in size and shape, holes and other tactile features that the Task Force deemed were not sufficiently durable to be practicable for U.S. currency at this time. The Task Force agreed that a high-contrast feature, such as a large numeral on a light background, would be useful to the approximately 3.5 million Americans with low vision, and could be easily incorporated into the new series design without compromising the improved security of the new notes or adding cost. In addition, a new machine-readable feature was incorporated on the $20 note for the blind. It will facilitate development of convenient scanning devices that could identify the note's denomination.

The Design Task Force will continue to seek and test new features to make U.S. currency even more secure and more readily usable as technology further evolves.

The New Design

The new currency has the same size, color, and feel as the old notes, with the same historical figures and national symbols. "In God We Trust" and the legal tender wording also remain on the new bills. This continuity facilitates public education and universal recognition of the design as genuine U.S. currency--an important consideration since there will be dual circulation of the old and new currencies around the world.

The $20 bill includes several important security features. These features also appear in the $100 and the $50, with some variations:

- A larger, slightly off-center portrait is the most noticeable visual change. The larger portrait incorporates more detail, making it easier to recognize and more difficult to counterfeit. Moving the portrait away from the center, the area of highest wear, will reduce wear on the portrait. The $20 bill features a portrait of President Andrew Jackson.

- Shifting the portrait off center provides room for a watermark, which is created during the paper-making process and is difficult for counterfeiters to reproduce. The watermark depicts the same historical figure as the engraved portrait.

- The background of the portrait incorporates the technique of fine-line printing, as does the background of the picture on the reverse side. This type of fine-line printing is difficult to replicate accurately on scanning equipment or by other means of printing.

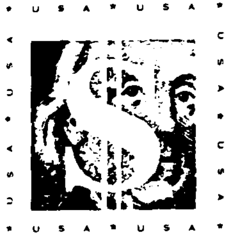
- Color shifting ink changes from green to black when viewed from different angles. This feature is used in the numeral in the lower right-hand corner of the bill front.

- The use of a unique thread position for each denomination guards against counterfeiting. In the $20 bill, the thread is to the far left of the portrait and glows green when held under ultraviolet light; in the $50 bill, it is found to the right of the portrait and glows yellow; in the $100 bill, it is found to the left of the portrait and glows red. The denomination of the note is also printed on each thread; for example, "USA TWENTY" and a flag are repeated along the thread in the $20 note. The number "20" appears within the star field of the flag.

- The numeral in the lower left-hand corner of the $20 and the $100 and the side border design of the $50 incorporates microprinting, a printing technique using lettering that can be read with a low-powered magnifier. Extremely small print appears as a thin line to the naked eye and yields a blurred image when copied. On the new $20 bill, microprinting can also be found on the lower edge ornamentation of the portrait's oval frame. On the $50, similar microprinting is used in President Grant's collar, and on the $100 bill it is found on the lapel of Benjamin Franklin's coat.

- Serial numbers on the new currency differ slightly from old currency. The new serial numbers consist of two prefix letters, eight numerals, and a one-letter suffix. The first letter of the prefix designates the series (for example, Series 1996 will be designated by the letter A). The second letter of the prefix designates the Federal Reserve Bank to which the note was issued. In addition, a universal Federal Reserve seal replaces individual seals for each Reserve Bank.

Although all denominations of currency will have security features, the number of features will vary according to denomination. While the $20, $50 and $100 notes have a full package of features, lower denominations may have fewer and less sophisticated features.



Technical Background
Security Features

The Department of the Treasury's Bureau of Engraving and Printing (BEP) is responsible for producing the new series currency, which, like other United States currency, is issued through the Federal Reserve System. The new features found in the Series 1996 $20, $50 and $100 notes--including enlarged off-center portrait, watermark, fine-line printing patterns and color-shifting ink--were selected after extensive testing and evaluation of approximately 120 bank note security devices, many of which are used successfully by other countries with lower production and circulation demands. Other pre-existing security features, such as the security thread and microprinting, are included in the new notes and have changed only slightly.

In December 1993, the National Research Council (NRC), funded by the Department of the Treasury, published *Counterfeit Deterrent Features for the Next Generation Currency Design*. This report analyzed and recommended overt counterfeit deterrent features that could be incorporated into a redesign of U.S. banknotes. The developmental costs for the new series were $265,376 to fund the NRC study, and approximately $500,000 to purchase test quantities of features and carry out internal BEP analyses.

Evaluation Criteria

Effectiveness

Counterfeit deterrent effectiveness was tested by reprographic equipment manufacturers and government scientists. They also considered the ease of public and cash handler recognition.

Durability

Durability was tested rigorously. Tests included crumpling, folding, laundering, soiling and soaking in a variety of solvents such as gasoline, acids and laundry products.

Production Costs

Research and production expenses will increase the cost of each note by about two cents. The Federal Reserve System has funded the development and introduction of the new currency through earnings the Federal Reserve receives primarily from interest on its holdings of U.S. government securities.

Appearance

The currency still has a familiar American look. The size of the notes, basic colors, historical figures and national symbols are not changing. New features were evaluated for their compatibility with the traditional design of U.S. currency.

The New Security Features

Watermark

The watermark is formed by varying paper density in a small area during the papermaking process. The image is visible as darker and lighter areas when held up to the light. Since the watermark does not copy on color copiers or scanners, it makes it harder to use lower denomination paper to print counterfeit notes in higher denominations and is a good way to authenticate the note. It depicts the same historical figure as the engraved portrait.

Color-Shifting Inks

These inks, used in the numeral on the lower right corner of the face of the note, change color when the note is viewed from different angles. The ink appears green when viewed directly and changes to black when the note is tilted.

Fine-Line Printing Patterns

This type of line structure appears normal to the human eye but is difficult for current copying and scanning equipment to resolve properly. The lines are found behind the portrait on the front and around the historic building on the back.

Enlarged Off-Center Portrait

The larger portrait can incorporate more detail, making it easier to recognize and more difficult to counterfeit. It also provides an easy way for the public to distinguish the new design from the old. The portrait is shifted off center to provide room for a watermark and unique "lanes" for the security thread in each denomination. The slight relocation also reduces wear on most of the portrait by removing it from the center, which is frequently folded. The increased image size can help people with visual impairments identify the note.

Low-Vision Feature

The Series 1996 $20 and $50 notes have a large dark numeral on a light background on the lower right corner of the back. This numeral, which represents the denomination, helps people with low vision, senior citizens and others as well because it is easier to read.

Also, a machine-readable feature has been incorporated for the blind. It will facilitate development of convenient scanning devices that could identify the note as a $20.

Pre-Existing Security Features

Security Thread

A security thread is a thin thread or ribbon running through a bank note substrate. All 1990 series and later notes, except the $1, include this feature. The note's denomination is printed on

the thread. In addition, the threads of the new $20 and new $50 have graphics in addition to the printed denomination. The denomination number appears in the star field of the flag printed on the thread. The thread in the new notes glows when held under a long-wave ultraviolet light. In the new $20 note it glows green, in the new $50 note it glows yellow, and in the new $100 note it glows red. Since it is visible in transmitted light, but not in reflected light, the thread is difficult to copy with a color copier which uses reflected light to generate an image. Using a unique thread position for each denomination guards against certain counterfeit techniques, such as bleaching ink off a lower denomination and using the paper to "reprint" the bill as a higher value note.

Microprinting

This print appears as a thin line to the naked eye, but the lettering easily can be read using a low-power magnifier. The resolution of most current copiers is not sufficient to copy such fine print. On the newly designed $20 notes, microprinting appears in the lower left corner numeral and along the lower edge ornamentation of the oval framing the portrait. On the $50 notes, microprinting appears on the side borders and in Ulysses Grant's collar. On the $100 notes, microprinting appears in the lower left corner numeral and on Benjamin Franklin's coat. In 1990, 1993 and 1995 series notes, "The United States of America" is printed repeatedly in a line outside the portrait frame.

Advanced Copier and Printer Technology

Advanced reprographic technology improved dramatically during the 1990s. The technology is expected to continue to improve into the next century. Some types of equipment can accurately reproduce the colors and fine-line detail of security documents and are seen as a threat to currency.

Market surveys indicate that as quality, affordability, and availability increase, advanced equipment is becoming the standard in offices, copy centers, and printing facilities. The color copier/printer of the '90s has been compared with the color television of the '70s, when color became the standard, rather than the exception.

Sophisticated copiers, printers, electronic digital scanners, color workstations, and computer software, which today can interface with each other, can present threats to currency. This equipment does not require extensive expertise to operate and is becoming widely accessible through copy centers, corporate offices, and even home use. For this reason, it is important to incorporate security features in U.S. currency that will be effective in countering this type of threat.

Advanced Full-Color Copiers

Advanced full-color copiers use a digital electrophotographic process to produce high quality plain paper copies. Some of these copiers interface with personal computers, allowing the user to scan an image directly into the computer or print an image from the computer.

Digital Scanners

Scanner equipment electronically scans an image or text from an original document and digitizes it into a computer-readable form. With the proper software, a user can display and edit an image on-screen, store it electronically, print the image in color or use it to make offset, letterpress or gravure printing plates.

Color Ink Jet Copiers and Printers

Color inkjet copiers utilize scanner technology to digitize an image. They can produce good quality reproductions on plain paper, are widely available and inexpensive. The machines then can be used to scan an image into the computer or to output an image. A typical counterfeit note printed from an inkjet printer/copier can be detected fairly easily by properly examining the note for security features.

NEW DESIGNS FOR YOUR MONEY

Recent Studies
United States Currency Security Features

Counterfeit Deterrence

Counterfeit Deterrent Features for the Next Generation Currency Design, December, 1993. National Research Council, funded by the Department of the Treasury.

To analyze and recommend overt counterfeit deterrent features that could be incorporated into a redesign of U.S. bank notes. Starting in with the 1996 series, U.S. paper currency is being redesigned to incorporate anti-counterfeiting features. Features recommended included color-shifting ink, a watermark, microprinting, a security thread and other features that are difficult to copy.

Advanced Reprographic Systems: Counterfeiting Threat Assessment and Deterrent Measures, June 1986. National Academy of Sciences, funded by the Bureau of Engraving and Printing.

To assess counterfeit threats from specific advanced reprographic equipment and recommend counterfeit deterrents. Confirmed threat and recommended action. For near term, suggested combination of conventional deterrent devices, including a security thread.

Features for the Visually Impaired

Currency Features for Visually Impaired People, January 1995. National Research Council, funded by the Bureau of Engraving and Printing.

To analyze and recommend overt counterfeit deterrence features that could be incorporated into a redesign of U.S. currency for use by the visually impaired. Recommended long-range systematic planning as a regular part of the mission within the Department of the Treasury.

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

May 13, 1998

The Honorable Newt Gingrich
Speaker
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Speaker:

The Administration supports the goal of financial modernization. However, the Administration strongly opposes H.R. 10 in the form it is being presented to the House for a vote. I will recommend that the President veto the bill if it is passed in this form or as modified by the Manager's amendment. I urge you to vote against the bill.

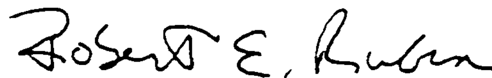
In its present form, H.R. 10 would substantially weaken the national banking system. Because supervising national banks is the primary means through which the Executive Branch has a role in formulating and implementing financial institutions policy, H.R. 10 would significantly diminish the role of the Executive Branch in this key area of economic policymaking.

The bill would also weaken the effect of the Community Reinvestment Act, and impose needless costs on small banks. We have detailed a number of other concerns with the bill that have not been addressed in the current version of this legislation.

None of the amendments made in order by the Rules Committee fully resolve the Administration's objections to the bill. However, the LaFalce-Vento Amendment, if adopted, would significantly improve the bill.

An amendment proposed by Mr. Baker contains a provision that would substantially weaken the Community Reinvestment Act, by exempting banks with assets of less than $100 million. I will recommend a veto if the bill is passed with such an amendment.

Sincerely,



Robert E. Rubin

RR_2442

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

May 13, 1998

The Honorable Richard A. Gephardt
Minority Leader
U.S. House of Representatives
Washington, DC 20515

Dear Dick:

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Robert E. Rubin

RR-2442

SUBSIDIARIES v. AFFILIATES

Treasury Response to Federal Reserve Paper About Subsidiaries of Banks

May 12, 1998

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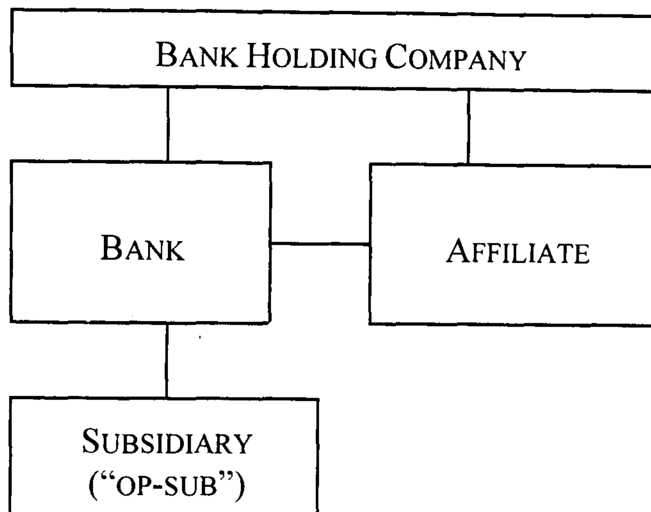
Introduction

Much debate has arisen over whether H.R. 10, the financial modernization bill, should allow companies that include banks to conduct financial activities in both affiliates and subsidiaries of banks, or only in affiliates.



The Treasury would allow a subsidiary or affiliate to conduct any financial activity. The Banking Committee bill would do the same, except that it would not permit subsidiaries to engage in merchant banking and most insurance underwriting. As currently drafted, H.R. 10 -- reflecting the position of the Federal Reserve -- would prohibit subsidiaries from conducting any financial activity as principal (except those that could also be done in the bank). The LaFalce-Vento amendment would restore to the operating subsidiary all financial activities except insurance underwriting.

In a May 4, 1998 letter to Representative Dingell, Chairman Greenspan transmitted a Federal Reserve paper on the operating subsidiary and other issues. Set forth below is a response to the portion of the Fed paper concerning the op-sub issue.

Background

Each of the op-sub proposals starts with the premise that companies that include banks, like other companies, should have the option of conducting their activities in the corporate structure that makes the most business sense for them (whether through subsidiaries or affiliates of banks). Choice is appropriate so long as each structure provides sufficient protections for the bank (and thereby for the deposit insurance funds and the taxpayers who stand behind them). Existing protections include sections 23A and 23B of the Federal Reserve Act, which prohibit a bank from lending more than 10 percent

of its capital to any one affiliate, prohibit a bank's combined loans to all affiliates from exceeding 20 percent of the bank's capital, and require that all loans and other transactions between a bank and its affiliates be fully collateralized and on market terms.

Each of the op-sub proposals would apply these protections to credit extended to subsidiaries, with one exception. Rather than applying the 10 and 20 percent limits to a bank's equity (stock) investment in a subsidiary, the op-sub proposals would instead require that the bank deduct the entire amount of such investments from the bank's regulatory capital and remain well-capitalized even after the deduction. In other words, the proposals require that the bank be able to lose its entire stake in the subsidiary and still remain well capitalized. (Thus, whereas sections 23A and 23B would allow a bank that is barely well capitalized to invest up to 10 percent of its capital in a subsidiary, the op-sub proposals would allow no investment.)

It is against this backdrop that objections to subsidiaries must be considered. Set out below are responses to the major points made in the Fed paper.

Main Points

I. Conducting financial activities in a subsidiary is consistent with safety and soundness. Opposing arguments ignore the significant protections in the op-sub proposals.

The Fed staff paper warns of dangers to the safety and soundness of the American banking industry if banking organizations are permitted to engage in financial activities through subsidiaries (pp. 5-6).

Putting the Argument in Context

Until recent weeks, the Federal Reserve has not suggested that its objections to operating subsidiaries included safety and soundness concerns.

- Indeed, only a year ago (in response to a question from Representative Bentsen during a House Banking Committee hearing), Chairman Greenspan stated unequivocally -- twice -- that the federal subsidy, *not safety and soundness,* was his concern with the subsidiary structure:

  "Mr. BENTSEN. But your point is . . . the inequity of allowing the subsidy to be transferred is more your concern than the potential risk?"

"Mr. GREENSPAN. **My concerns are not safety and soundness**. It is the issue of creating subsidies for individual institutions which their competitors do not have. It is a level playing field issue. Non-bank holding companies or other institutions do not have access to that subsidy, and it creates an unlevel playing field. **It is not a safety and soundness issue.**"[1]

The FDIC, which has a strong interest in protecting the deposit insurance funds, likewise believes that the subsidiary structure raises no safety and soundness concerns.

- Chairman Helfer of the FDIC testified last year that:

"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."[2]

- FDIC Acting Chairman Hove reiterated this message in a letter this week:

"With appropriate safeguards, the operating subsidiary and holding company structures both provide adequate safety-and-soundness protection."[3]

The Fed paper's safety and soundness argument not only contradicts the Chairman's earlier statements on this issue, but runs counter to the common understanding of the relative risks of financial products. As Chairman Greenspan has explained in another context:

"[T]he pressures unleashed by technology, globalization, and deregulation have inexorably eroded the traditional institutional differences among financial firms. Examples abound. . . . On the bank side, the economics of

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[1]Transcript (p. 136) from Hearing on Financial Modernization, Committee on Banking and Financial Services, U.S. House of Representatives, May 22, 1997 (emphasis added).

[2]Testimony of Ricki Helfer, Chairman, Federal Deposit Insurance Corporation, Committee on Banking and Financial Services, U.S. House of Representatives, May 22, 1997.

[3]Letter from FDIC Acting Chairman Andrew C. Hove, Jr. to the Honorable John J. LaFalce, Ranking Member, Committee on Banking and Financial Services, U.S. House of Representatives, May 11, 1998.

a typical bank loan syndication do not differ essentially from the economics of a best-efforts securities underwriting. Indeed, investment banks are themselves becoming increasingly important in the syndicated loan market. With regard to derivatives instruments, the expertise required to manage prudently the writing of over-the-counter derivatives, a business dominated by banks, is similar to that required for using exchange-traded futures and options, instruments used extensively by both commercial and investment banks. The writing of a put option by a bank is economically indistinguishable from the issuance of an insurance policy. The list could go on. *It is sufficient to say that a strong case can be made that the evolution of financial technology alone has changed forever our ability to place commercial banking, investment banking, insurance underwriting, and insurance sales into neat separate boxes.*"[4]

New financial activities thus do not pose new or greater risks than those that banks are already managing.

Equivalent Protections for Subsidiaries and Affiliates

Under a fundamental, longstanding and uniform rule of corporate law, a parent corporation is not liable for the obligations of a separately incorporated subsidiary in excess of its investment in that subsidiary; in other words, the parent is treated like any other shareholder in a corporation. This so-called "corporate veil" can be pierced (for subsidiaries as well as affiliates) only under extraordinary circumstances, such as fraud by the parent.

Although a parent would not then be liable for the subsidiary's obligations, it would of course stand to lose *its own* stake in the subsidiary if the subsidiary failed -- that is, any investment in, or loans to, or guarantees made on behalf of the subsidiary. As noted above, however, each of the op-sub proposals expressly limits this exposure.

- Whether conducting new financial activities through op-subs or affiliates, the bank would have to be and remain well capitalized and well managed, and would face sanctions for failing to meet these standards.

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[4]Remarks by Chairman Alan Greenspan at the Annual Convention of the American Bankers Association, Boston, Massachusetts, October 5, 1997 (emphasis added).

- The amount of any equity investment made by a parent bank in a subsidiary would have to be deducted from the bank's capital in determining whether it satisfied the "well capitalized" standard. Thus, if the subsidiary were to fail, the bank's regulatory capital would not be affected and the bank's economic loss could not exceed the amount of its investment.

- Each of the op-sub proposals would apply the funding restrictions of sections 23A and 23B (described above) to credit extended to subsidiaries as well as holding company affiliates. Thus, the bank's ability to provide funding for a new activity would be subject to absolutely the same *strict* limits regardless of where the new financial activities were conducted.

The Fed paper briefly dismisses these protections (p. 10, ¶2) by stating that "in a world of rapid financial transactions, a subsidiary could lose multiples of its capital intra day before the OCC is even aware of it, and *all* that loss would fall on the parent bank's capital. That means that any loss of the subsidiary -- and especially its failure -- can cause the capital position of the parent bank to fall dramatically. . . ." An illustration of how the above protections would function demonstrates that this is simply not so.

- Suppose, for example, that a broker-dealer subsidiary of a national bank sustained catastrophic trading losses during the day and could not meet its obligations. The funding limitations contained in the op-sub proposals would prohibit the bank from rescuing the subsidiary if the investment would leave the bank less than well capitalized; any loan to the subsidiary would be limited to 10 percent of the bank's capital and would have to be collateralized and on market terms. Pursuant to SEC rules, the assets of the broker-dealer would be liquidated that day. The parent bank would lose its capital investment in the subsidiary but would remain well capitalized -- because it had already deducted that investment from its capital (as required by each of the op-sub proposals). If the parent bank also loaned the maximum of 10 percent of its capital to the subsidiary, it could lose some portion of that 10 percent (depending on the collateral and the recovery rates in the liquidation). Other than that, *there would be no effect on the bank's capital.*

The Fed paper (p. 4) also claims that the restrictions in the LaFalce amendment (which allows subsidiaries to engage in some new financial activities as principal) are less strict for subsidiaries than affiliates because the section 23A limitations would not include equity investments in subsidiaries -- in other words, a bank could invest more than 10 percent of its capital in a subsidiary. This statement ignores two key facts:

- All of the op-sub proposals, including the LaFalce amendment, would require that such an investment be deducted from the bank's capital for purposes of meeting regulatory capital requirements. .

- A bank could, under either current law or H.R. 10, pay dividends to its holding company for investment in a new activity without being subject to sections 23A and 23B. Notably, the Banking Committee bill and the LaFalce amendment not only would require a capital haircut for an investment in a subsidiary, but also would not allow a bank to make a downstream investment in excess of what it could legally pay out as a dividend. Treasury supports this step.

The Emerald Isle

Searching for examples of how the bank subsidiary structure can cause problems, the Fed paper cites only "an incident that occurred several years ago in Ireland" (p.6,¶1). A more relevant example would be our own country's long experience with Edge Act subsidiaries of U.S. banks, which as noted below, have for decades engaged in investment and merchant banking overseas -- without safety and soundness problems or subsidy leakage unacceptable to the Fed.

One may find a more relevant foreign experience with subsidiaries in Canada, whose banks operate under a legal regime similar to our own except in one respect: in 1987, Canada amended its version of the Glass-Steagall Act and allowed securities activities to be conducted in subsidiaries of banks.[5] We are aware of no resulting safety and soundness problems.

II. Limiting a bank's ability to fund a subsidiary resolves any concerns about the bank transferring to the subsidiary any funding advantage it derives from the federal safety net.

The safety and soundness protections above are also a complete answer to the Fed paper's argument that allowing bank subsidiaries to conduct financial activities would cause an unacceptable leakage of the federal subsidy that banks supposedly enjoy. Even assuming that a subsidy exists, the same allegedly subsidized funds that the bank could invest in a subsidiary could as readily be paid out as dividends to the holding company in order to capitalize new affiliates. If there is, as the Fed paper claims, "an enormous

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[5]Task Force on the Future of the Canadian Financial Services Sector, Discussion Paper, June 10, 1997.

advantage in funding a subsidiary of a bank," there is exactly the same enormous advantage in funding an affiliate. There is no evidence to show that funds paid upstream to affiliates would carry any less of a subsidy than the same funds invested downstream.[6] And the bank's ability to provide such funds would be the same for affiliates as for subsidiaries: it would depend on the bank's capacity to remain well-capitalized after deducting the capital invested in the subsidiary or channeled to the holding company.

There is reason to question whether a net subsidy of any significance actually exists.

- If a measurable subsidy existed, banks would tend to locate activities under the bank to reap a competitive advantage. Yet where banks are free to choose their organizational form, no clear pattern emerges.

  - For example, banks can locate their mortgage banking operations in the bank, in bank subsidiaries, or in bank holding company affiliates. Currently, of the top 20 bank holding companies, six conduct mortgage banking operations in a holding company affiliate, nine conduct mortgage banking activities in the bank or in bank subsidiaries, and five conduct mortgage lending through a combination of the bank and bank holding company. This pattern suggests either that any net subsidy is minimal, or that it is the same for both sorts of organizational arrangements.

- In addition, if a safety net subsidy were substantial and created a large competitive advantage, banks -- even more than their subsidiaries -- would tend to dominate the market in activities that they can conduct within the bank. This has not occurred, however. For example, in the markets for government securities that banks can underwrite and deal in, banks are anything but dominant.

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[6]The Federal Reserve has argued elsewhere that dividends paid by banks have largely gone directly to shareholders as dividends, rather than to capitalize new affiliates. But this provides no evidence of what would happen if bank holding companies were permitted to have broad new activities and affiliations. If a material safety net subsidy existed and were capable of transmission, holding company management would have strong incentives to utilize bank resources to capitalize new affiliates that would benefit shareholders.

III. Subsidiaries of U.S. banks have for decades -- safely, soundly, and with Fed approval -- engaged overseas in investment banking and merchant banking.

The Federal Reserve's denunciation of subsidiaries is inconsistent with its own administration of the Edge Act. Pursuant to that Act, the Federal Reserve has permitted subsidiaries of national banks to engage overseas in investment and merchant banking -- the very activities that it now demands be prohibited to domestic, OCC-regulated subsidiaries.[7]

Edge Act subsidiaries can be extremely large -- one Edge Act subsidiary, for example, has over $73 billion in assets, or approximately 28 percent of the total assets of the bank and its subsidiaries. If a subsidiary's securities activities did pose a danger to a parent bank, the Edge Act would represent a grave threat to the banking system -- particularly as the Fed generally does not apply the restrictions of sections 23A and 23B to bank funding of an Edge Act sub (even though in the domestic context the Fed contends that such application is not only vital but insufficient protection).

The Fed paper (pp. 10-11) argues that when Congress authorized Edge Act subsidiaries in 1919, it did so to allow U.S. banks to compete against universal banks abroad. Thus, the Fed paper argues, its support of conducting overseas securities activities through subsidiaries is not inconsistent with its opposition to conducting the same activities in domestic subsidiaries. However:

- No amount of improved foreign competitiveness would justify a risk to safety and soundness, and the Federal Reserve has never suggested there was such a trade-off.

- With respect to the safety net subsidy that the Federal Reserve believes that banks receive, the Fed's defense of the Edge Act is a plain acknowledgment that this subsidy can be outweighed by a need to make our banking system competitive overseas.

- If the need for U.S. banks to compete against foreign banks can outweigh the adverse consequences of an alleged subsidy abroad, the need to compete in global markets would outweigh the concern over a subsidy no less at home. The U.S.

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[7]Since 1979, the Fed's Reg K has permitted foreign subsidiaries of both U.S. banks and bank holding companies to underwrite and deal in *equity* securities outside the United States, subject to certain restrictions and limitations. Foreign subsidiaries of U.S. banking organizations have been permitted broad authority to underwrite and deal in *debt* securities for over 25 years.

banking system now competes on a global basis. According to recent Federal Reserve data, foreign-related institutions account for almost 14 percent of commercial bank assets in the U.S. Domestic banks compete against foreign banks in credit markets worldwide, as corporate customers can choose each day to raise funds in U.S., European, or Asian markets.

IV. Accounting principles do not determine a bank's exposure to a subsidiary and do not justify limiting the subsidiary's activities.

The Fed paper argues (pp. 5-6) that generally accepted accounting principles (GAAP) justify a prohibition on conducting as principal those financial activities in subsidiaries of banks that banks cannot conduct directly. The paper claims that because GAAP requires consolidation of the bank's and subsidiary's financial statements, national banks would have strong incentives to prop up troubled subsidiaries. Furthermore, it claims that losses at a subsidiary, which would be reflected in the banks's consolidated financial statements prepared under GAAP, could cause depositors and investors to lose confidence in the bank. There are serious problems with this argument.

- *Accounting does not dictate liability.* As described above, a parent is not generally liable for the obligations of its subsidiaries -- notwithstanding that the assets of the subsidiary are consolidated with the parent for accounting purposes.

- The most heavily relied upon, publicly reported GAAP-based financial statements *are those of the holding company, which consolidate the financial statements of the bank with all of its affiliates as well as subsidiaries.* Thus if banks have a GAAP-induced incentive to prop up subsidiaries, banks have the same incentive to prop up affiliates, and bank holding company statements that reflect poor performance of an affiliate could just as easily concern investors and depositors.

- While it is true that subsidiary losses appear in a bank's GAAP-based financial statements, the Fed paper neglects to point out that these losses would disappear from the bank's balance sheet when the subsidiary is liquidated or sold. At that point, the bank's financial statements will again reflect its actual economic loss, which would be limited to the bank's investment (for which it has already taken a capital deduction and remained well-capitalized) and credit exposure within section 23A limits.[8]

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[8]The Fed asserts (p. 10) that "to the extent the bank's capital depends on accumulated retained earnings of the subsidiary -- which are treated ambiguously under the [LaFalce] Amendment and may or may not be deducted from the bank's regulatory capital under the Amendment -- the capital of the parent bank would be inflated and allowed to support a wider base of bank assets and would be more susceptible to sharp regulatory and economic declines should the operating subsidiary incur losses."

This assertion is incorrect. There is nothing ambiguous about the regulatory capital treatment of a op subsidiary's retained earnings. The LaFalce Amendment and all other op-sub proposals provide not only that a subsidiary's "assets and liabilities shall not be consolidated with those of the national bank" but also that the parent national bank must deduct its "equity investment" in the subsidiary from its assets and

- The Fed paper asserts that a parent bank will be inclined to rescue its subsidiary. The op-sub proposals, however, would *expressly prohibit the bank from doing so if the new investment would leave the bank less than well capitalized or if any new loans would exceed section 23A limitations.* The potential exposure is thus the same as with a holding company affiliate, where the bank can channel dividends through the holding company to capitalize an affiliate.

V. Allowing banks to conduct financial activities through subsidiaries would not disrupt the Federal Reserve's role in the financial system.

The Fed paper (p. 7) asserts that "this is not a fight for 'turf' by the Federal Reserve," yet it goes on to oppose the op-sub proposals on the ground that they would diminish the Fed's regulatory jurisdiction. However the Fed's concerns are phrased, the Treasury Department has consistently recognized the importance of the Fed's role. While some on Capitol Hill and elsewhere have proposed to eliminate the Fed's bank holding company umbrella supervision role, it was the Treasury Department that began this round of financial modernization with a proposal maintaining the Fed's role. Nothing in the op-sub proposals would deprive the Federal Reserve of the jurisdiction it seeks to maintain. Rather, H.R. 10 as currently drafted would tip the regulatory balance sharply and unalterably toward the Federal Reserve.

Prospects for Holding Companies

The Fed paper (p. 8) expresses vague concerns that any growth in subsidiaries would "undermine the holding company structure" and the Fed's ability "to monitor emerging problems that could threaten our financial structure [and] our ability to manage crises." These concerns are misplaced.

Any bank of significant size would continue to maintain a Fed-regulated holding company under the op-sub proposals:

- Any bank wishing to dissolve its holding company would have to de-register all of its outstanding shares with the SEC and then re-issue stock through the OCC. We believe that no large bank would undertake such a step, given the shareholder relations problems it would cause.

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tangible equity. The combination of these provisions ensures that the regulatory capital of the parent bank would never be inflated by the retained earnings of the subsidiary and that the bank would never be subject to sharp economic or regulatory capital declines due to subsidiary losses.

- Each bill that would allow a bank holding company to engage in nonfinancial activities has required it to do so through a holding company affiliate, and not in a bank or its subsidiary. Thus, any bank that wished to use H.R. 10's commercial basket to engage in a nonfinancial activity would have to maintain a bank holding company.

- The Banking Committee bill and the LaFalce amendment would require insurance underwriting (except credit insurance) to be conducted in a bank affiliate. Thus, any bank that wished to underwrite insurance would have to maintain a bank holding company.

Finally, the Fed paper's suggestion that moving a broker-dealer from a holding company affiliate to a subsidiary would reduce the Federal Reserve's ability to monitor the risks of the broker-dealer's activities is simply unfounded. The SEC is the functional regulator of broker-dealers, and would supervise and regulate that activity regardless of where it is housed within the bank holding company. In either case, the Fed would rely on SEC reports.

National v. State Charter

The Fed paper (pp. 7-8) argues that the state bank charter is threatened, stating, "It is widely recognized that the national bank charter is far superior to the state bank charter for interstate banking and provides national banks with significant . . . advantages in doing business on an interstate basis." This statement is difficult to reconcile with recent history not mentioned in the paper.

- Under H.R. 1306, the Riegle-Neal Amendments Act of 1997, a state-chartered bank may offer a uniform menu of products and services when it branches across state lines. State-chartered banks operating in other states can engage -- at a minimum -- in whatever activities a national bank can engage in, so long as the bank's home state authorizes the activity. In addition, a state-chartered bank can engage in activities beyond those permissible for a national bank if they are allowed by the host state and authorized by the home state.

- The FDIC, the Conference of State Bank Supervisors, and the Fed in late 1996 agreed to provide a single regulatory point of contact at both state and federal levels for state-chartered banks that branch across state lines. Under the agreements, home state law will apply in almost every area; state-chartered banks must comply with host state laws governing intrastate branching and consumer protection.

Finally, the most tangible consideration a bank faces when choosing between a state and federal charter is its examination fees. Whereas the OCC recoups the examination costs of national banks through fees, the federal taxpayer subsidizes the examination of state member banks, as the Fed deducts those costs from money it would otherwise remit to the Treasury. The Fed has consistently opposed charging state banks for their examinations in the same way that national banks are charged. With national and state banks now having comparable advantages in interstate banking, examination costs may become a more dominant feature in bank charter choice.

VI. Other corrections.

Scope of Operating Subsidiary Activities

The Fed paper states, "The only activities that the Amendment would prohibit operating subsidiaries from conducting are underwriting non-credit related insurance, real estate investment and development, and merchant banking." The paper argues that the financial-in-nature standard for subsidiaries would allow them to "conceivably engage in a variety of commercial activities," including the ownership of television stations.

This assertion is simply incorrect. The Treasury proposal (and the LaFalce Amendment) would prohibit a subsidiary from conducting *non-financial* activities, and the financial-in-nature standard is no broader for subsidiaries than for affiliates. What the Treasury proposal seeks is parity in *financial* activities between subsidiaries and holding company affiliates. Even if Congress decides to permit bank holding companies to engage to any extent in *non-financial* activities -- either through a basket or a unitary thrift structure -- none of the proposals would extend this authority to subsidiaries.

Oversight

The Fed paper argues (p. 4) that while the Federal Reserve must defer to the SEC, state insurance authorities and other functional regulators in supervising functionally regulated holding company affiliates, comparable provisions do not exist in the LaFalce amendment with respect to OCC's authority over functionally regulated subsidiaries of national banks. We strongly support, and our proposal provided for, functional regulation of securities and insurance activities, regardless of whether these activities are housed in subsidiaries or affiliates of banks.

Conclusion

On May 8, 1998, Chairman Greenspan told the *Wall Street Journal* that the question of subsidiaries "appears to be a very small issue, but it will determine the financial regulatory structure of the United States for the next generation." We wholeheartedly agree.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
May 14, 1998

Contacts: Hamilton Dix, Treasury (202) 622-2960
Bob Moore, Federal Reserve (202) 452-3215
Alyson Grunder, Foreign Press Center (212) 317-8325

RUBIN AND GREENSPAN TO UNVEIL NEW $20 BILL DESIGN ON MAY 20

Treasury Secretary Robert E. Rubin will join Federal Reserve Board Chairman Alan Greenspan, U.S. Treasurer Mary Ellen Withrow, and Treasury Under Secretary for Domestic Finance John D. Hawke, Jr., to unveil the new $20 note designed to deter counterfeiting at 11 a.m. EDT on Wednesday, May 20, at the Bureau of Engraving and Printing Auditorium, 14th (east side) and C Streets, S.W., Washington, D.C.

The new $20 note design will also be unveiled at Federal Reserve banks and branches around the country and in a briefing at the New York Foreign Press Center at 2:30 p.m. EDT on May 20. The new note, the third of the Series 1996 currency to be redesigned with new and modified anti-counterfeiting features, will be issued in the fall of 1998.

A satellite feed including portions of the unveiling and B-roll of the new notes in production will be transmitted via MEDIALINK as follows:

DISTRIBUTION: Wednesday, May 20
FEED TIME: 2:30p.m. - 3:00p.m. EDT
FEED COORDINATES: C-Band Galaxay 3/Transponder 18
DOWNLINK: 4060 MHz, Audio 6.2 and 6.8
Technical assistance contact: (800) 232-0894

Press planning to attend should call (202) 622-2960 by **6 pm, Tuesday, May 19**, with name and affiliation. Specimen notes will be available at the event for photographs and television cameras. Cameras may set up for the event beginning at 9 a.m.

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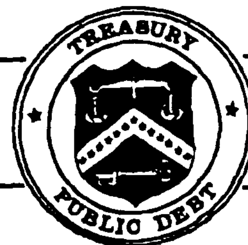
RR-2445

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
May 13, 1998

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 10-YEAR NOTES

Interest Rate:	5 5/8%	Issue Date:	May 15, 1998
Series:	C-2008	Dated Date:	May 15, 1998
CUSIP No:	9128274F6	Maturity Date:	May 15, 2008
STRIPS Minimum:	$320,000		

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Yield	Price
Low	5.638%	99.902
High	5.653%	99.788
Average	5.646%	99.841

Tenders at the high yield were allotted 66%.

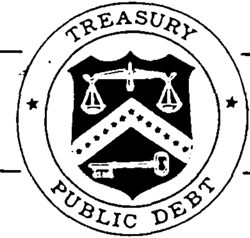
AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 28,559,000	$ 11,887,500
Noncompetitive	114,532	114,532
PUBLIC SUBTOTAL	28,673,532	12,002,032
Federal Reserve	2,720,000	2,720,000
Foreign Official Inst.	50,000	50,000
TOTAL	$ 31,443,532	$ 14,772,032

RR-2446

PUBLIC DEBT NEWS

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



FOR IMMEDIATE RELEASE
May 14, 1998

Contact: Office of Financing
(202) 219-3350

TREASURY'S INFLATION-INDEXED SECURITIES
JUNE 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 June 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 through the Treasury's Office of Public Affairs automated fax system by calling 202-622-2040 and requesting document number 2448. The information is also available on the Internet at Public Debt's web site (http://www.publicdebt.treas.gov).

The information for July is expected to be released on June 16, 1998.

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Attachment

PA-350

RR-2448

TREASURY INFLATION-INDEXED SECURITIES
Ref CPI and Index Ratios for
June 1998

Security:		3-3/8% 10-Year Notes	3-5/8% 5-Year Notes	3-5/8% 10-Year Notes	3-5/8% 30-Year Bonds
Description:		Series A-2007	Series J-2002	Series A-2008	Bonds of April 2028
CUSIP Number:		9128272M3	9128273A8	9128273T7	912810FD5
Dated Date:		January 15, 1997	July 15, 1997	January 15, 1998	April 15, 1998
Original Issue Date:		February 6, 1997	July 15, 1997	January 15, 1998	April 15, 1998
Additional Issue Date:		April 15, 1997	October 15, 1997		
Maturity Date:		January 15, 2007	July 15, 2002	January 15, 2008	April 15, 2028
Ref CPI on Dated Date:		158.43548	160.15484	161.55484	161.74000
Date	**Ref CPI**	**Index Ratio**	**Index Ratio**	**Index Ratio**	**Index Ratio**
June 1 1998	162.20000	1.02376	1.01277	1.00399	1.00284
June 2 1998	162.21000	1.02382	1.01283	1.00406	1.00291
June 3 1998	162.22000	1.02389	1.01289	1.00412	1.00297
June 4 1998	162.23000	1.02395	1.01296	1.00418	1.00303
June 5 1998	162.24000	1.02401	1.01302	1.00424	1.00309
June 6 1998	162.25000	1.02408	1.01308	1.00430	1.00315
June 7 1998	162.26000	1.02414	1.01314	1.00436	1.00322
June 8 1998	162.27000	1.02420	1.01321	1.00443	1.00328
June 9 1998	162.28000	1.02427	1.01327	1.00449	1.00334
June 10 1998	162.29000	1.02433	1.01333	1.00455	1.00340
June 11 1998	162.30000	1.02439	1.01339	1.00461	1.00346
June 12 1998	162.31000	1.02445	1.01346	1.00467	1.00352
June 13 1998	162.32000	1.02452	1.01352	1.00474	1.00359
June 14 1998	162.33000	1.02458	1.01358	1.00480	1.00365
June 15 1998	162.34000	1.02464	1.01364	1.00486	1.00371
June 16 1998	162.35000	1.02471	1.01371	1.00492	1.00377
June 17 1998	162.36000	1.02477	1.01377	1.00498	1.00383
June 18 1998	162.37000	1.02483	1.01383	1.00505	1.00390
June 19 1998	162.38000	1.02490	1.01389	1.00511	1.00396
June 20 1998	162.39000	1.02496	1.01396	1.00517	1.00402
June 21 1998	162.40000	1.02502	1.01402	1.00523	1.00408
June 22 1998	162.41000	1.02509	1.01408	1.00529	1.00414
June 23 1998	162.42000	1.02515	1.01414	1.00536	1.00420
June 24 1998	162.43000	1.02521	1.01421	1.00542	1.00427
June 25 1998	162.44000	1.02528	1.01427	1.00548	1.00433
June 26 1998	162.45000	1.02534	1.01433	1.00554	1.00439
June 27 1998	162.46000	1.02540	1.01439	1.00560	1.00445
June 28 1998	162.47000	1.02546	1.01446	1.00566	1.00451
June 29 1998	162.48000	1.02553	1.01452	1.00573	1.00458
June 30 1998	162.49000	1.02559	1.01458	1.00579	1.00464

CPI-U (NSA) for :	February 1998	161.9	March 1998	162.2	April 1998	162.5

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EMBARGOED UNTIL 2:30 P.M.
May 15, 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 $15,343 million of publicly held 52-week bills maturing May 28, 1998. This offering will result in a paydown for the Treasury of about $5,350 million. In addition to the maturing 52-week bills, there are $14,149 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 $13,463 million of the maturing bills. These accounts are considered to hold $5,490 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 $6,059 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 $1,470 million of the maturing 52-week issue.

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

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

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Attachment

RR-2450

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

HIGHLIGHTS OF TREASURY OFFERING OF 52-WEEK BILLS
TO BE ISSUED MAY 28, 1998

May 15, 1998

Offering Amount .... $10,000 million

Description of Offering:
Term and type of security .. 364-day bill
CUSIP number .... 912795 BX 8
Auction date .... May 21, 1998
Issue date .... May 28, 1998
Maturity date .... May 27, 1999
Original issue date .... May 28, 1998
Maturing amount .... $20,833 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 Daylight Saving time on auction day

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

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

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TREASURY NEWS

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MEDIA ADVISORY
May 18, 1998

Contact: Beth Weaver
(202) 622-2960

SECRETARY RUBIN AND ATTORNEY GENERAL RENO TO MAKE MAJOR LAW ENFORCEMENT ANNOUNCEMENT

Secretary Robert E. Rubin and Attorney General Janet Reno will make a major law enforcement announcement today at 3:30 p.m. in the Diplomatic Reception Room, Room 3311, at the Treasury Department.

Media without Treasury, White House, State, Defense, Justice or Congressional press credentials must call (202) 622-2960 with the following information: name, date of birth and social security number, by 2:30 p.m. today to be cleared into the building. This information can also be faxed to (202) 622-1999.

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RR-2451

DEPARTMENT OF THE TREASURY

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EMBARGOED FOR DELIVERY
May 18, 3:30 PM, EDT

CONTACT:
Beth Weaver, Treasury (202) 622-2960
Michael Gordon, Justice (202) 616-2777

U.S. CUSTOMS SERVICE TAKES DOWN MAJOR DRUG TRAFFICKERS, CORRUPT BANKS AND BANKERS IN LARGEST DRUG MONEY LAUNDERING CASE EVER

Treasury Secretary Robert E. Rubin and Attorney General Janet Reno announced today the culmination of the largest, most comprehensive drug money-laundering case in the history of U.S. law enforcement, representing the first time in which Mexican banks and bank officials have been directly linked to laundering the Cali and Juarez cartels' U.S. drug profits.

The nearly three-year undercover operation, known as Operation Casablanca, was led by the U.S. Customs Service in cooperation with federal, state and local agencies. The investigation spans 6 countries and prior to this weekend's arrests resulted in 112 arrests and seizures of $35 million dollars in illegal proceeds from drug money laundering and more than two tons of cocaine and four tons of marijuana.

"By infiltrating the highest levels of this international drug trafficking financial infrastructure, Customs was able to crack the elaborate financial schemes the drug traffickers developed to launder the tremendous volumes of cash acquired as proceeds from their deadly trade," said Secretary Rubin. "Today, we have hurt the drug cartels where it hurts the most -- in their pocket books."

Indictments were unsealed today in U.S. District Court in Los Angeles. One indictment charges 26 Mexican bank officials and three Mexican banks: CONFIA, BANCOMER, and BANCA SERFIN. Both BANCOMER and BANCA SERFIN have branches in the U.S.

The indictment alleges that officials from 12 of Mexico's 19 largest banking institutions were involved in money-laundering activities. Bank employees were implicated in meetings with implicated in meetings with undercover law enforcement officials. The second and third indictments cover money launderers from the Juarez and Cali cartels.

Since Saturday, May 16, Customs Service agents and other assisting law enforcement officers have arrested 14 Mexican banking officials as well as 14 members of the Juarez cartel of Mexico and 2 members of the Cali cartel.
RR-2452

"We set out to disrupt the money laundering networks that fuel the international drug trafficking trade, and we succeeded," said Attorney General Janet Reno. "Operation Casablanca built a road map that tracked the structure of the international drug cartels from the kingpins to the couriers and the bankers in between."

Operation Casablanca was initiated in November 1995, when the Customs Los Angeles Office learned that drug cartel members were laundering proceeds of U.S. drug sales through branches of Mexican banks along the border. The investigation expanded to include the financial infrastructure of the Juarez Cartel, including its money manager Victor Alcala Navarro and a principal in the Juarez Cartel, Jose Alvarez Tostado.

During the course of this investigation, undercover agents posed as middlemen for cartel brokers and bankers who agreed to launder their funds. The bankers would establish bogus accounts and use bank drafts to dodge money laundering regulations.

The investigation found that nearly 100 U.S. bank accounts were used in the money laundering activities by the drug traffickers and their corrupt banking partners. No evidence to date has been found that officials from those U.S. banks were aware of the source of the money that was transferred from Mexican to U.S. banks. At the conclusion of Operation Casablanca, U.S. customs agents reasonably expect to seize $110 million from Mexican investment accounts and other accounts at U.S. banks used by the traffickers.

These bank accounts can be forfeited under federal law as proceeds and means of facilitation of the drug trafficking and money laundering and as assets of the criminal enterprise.

The Federal Reserve has provided crucial assistance to federal agents and prosecutors throughout this lengthy investigation. Today, the Federal Reserve has initiated enforcement actions against those foreign banks under the Federal Reserve's supervision involved in this investigation. These actions will require the banks to ensure that there is no recurrence of money laundering in their banks.

The case is being prosecuted by the U.S. Attorney's Office for the Central District of California. The efforts of the Drug Enforcement Administration and the U.S. Attorney's offices in Chicago, New York and Miami have also been integral to the case.

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FOR IMMEDIATE RELEASE
May 18, 1998

UNDER SECRETARY FOR ENFORCEMENT RAYMOND KELLY

I am pleased to be here to share with you the results of Operation Casablanca. I want to thank the Department of Justice, the Federal Reserve, the Drug Enforcement Administration, and the many state and local law enforcement agencies for their invaluable assistance. I also commend the great work of the men and women of the United States Customs Service in this case.

I particularly want to recognize the leadership of Acting Customs Commissioner Sam Banks, Customs Assistant Commissioner for Investigations Bonni Tishcler; from the Justice Department, Deputy Assistant Attorney General Mary Lee Warren, and in Los Angeles, First Assistant US Attorney Rick Drooyan and his staff.

This past Saturday and Sunday, 22 Mexican banking officials from 12 commercial Mexican banks were arrested in California and Las Vegas on charges of money laundering. The bankers had been lured there as part of an elaborate US Customs undercover operation that began almost three years ago.

This case is extremely significant because of the sheer volume of the amounts of money involved. Second, it has uncovered a systemic scheme to launder money via a large number of Mexican financial institutions and third, because it exposes a link between the Cali and Juarez cartels and their relationship with Mexican banks.

Over the past 3 years up until this weekend, this investigation has resulted in the seizure of 35 million dollars from money launderer and two tons of cocaine, four tons of marijuana and the arrest of 112 individuals.

Today, seizure warrants will be served on more than 100 bank accounts throughout the united states and in Europe controlled by the cartels. We estimate that this will result in the seizure of an additional 122 million dollars from those accounts.

Today, approximately 70 more individuals have been or will be arrested for various money laundering and drug violations. Three Mexican financial institutions, Bancomer, Banco Serfin and Confia, were indicted for participating in the drug money laundering scheme. The Federal Reserve will take enforcement action against these and all other Mexican banks under their supervision involved in this case.

The case was made possible because the Cali and Juarez cartels were infiltrated by informants and undercover agents of the us customs service.

The money laundering scheme worked like this:

- Undercover agents picked up drug proceeds on the streets of major US cities and deposited those funds into undercover bank accounts controlled by the US Customs service.

- The funds were transferred electronically to Mexican banks that employed the arrested individuals.

- Banks drafts drawn on the us accounts of Mexican banks were delivered back to undercover agents in the US.

- The funds were then disbursed at the direction of the launderers.

According to the indictment, the Mexican bankers arrested over the weekend knew that this money was the proceeds of drug trafficking and collected a commission for their services.

Cartel operatives are being taken into custody in Chicago, New York, El Paso and Los Angeles. Moreover, two Colombian money launderers have been arrested in Aruba. In Mexico, arrest warrants are being issued for Jose Alvarez Tostado, the financial manager of the Juarez cartel. In Colombia, warrants are also being issued for two major drug suppliers to the Juarez cartel in Colombia indicted in this case.

Today, we tapped into the lifeblood of the drug lords and though we did not destroy the cartels, we left them significantly weaker and much less secure. Thank you.

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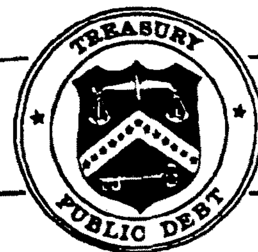
PUBLIC DEBT NEWS



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
May 18, 1998

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Term:	91-Day Bill
Issue Date:	May 21, 1998
Maturity Date:	August 20, 1998
CUSIP Number:	9127944Y7

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate 1/	Price
Low	5.050%	5.188%	98.723
High	5.080%	5.217%	98.716
Average	5.080%	5.217%	98.716

Tenders at the high discount rate were allotted 32%.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 32,317,041	$ 4,360,554
Noncompetitive	1,306,088	1,306,088
PUBLIC SUBTOTAL	33,623,129	5,666,642
Federal Reserve	3,164,564	3,164,564
Foreign Official Inst.		
Refunded Maturing	150,894	150,894
Additional Amounts	29,106	29,106
TOTAL	$ 36,967,693	$ 9,011,206

1/ Equivalent coupon-issue yield.

RR-2454

PUBLIC DEBT NEWS

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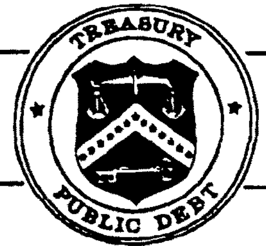

TREASURY SECURITY AUCTION RESULTS
BUREAU OF THE PUBLIC DEBT - WASHINGTON DC

FOR IMMEDIATE RELEASE
May 18, 1998

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Term:	182-Day Bill
Issue Date:	May 21, 1998
Maturity Date:	November 19, 1998
CUSIP Number:	912795AR2

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate 1/	Price
Low	5.140%	5.351%	97.401
High	5.160%	5.373%	97.391
Average	5.160%	5.373%	97.391

Tenders at the high discount rate were allotted 40%.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 30,099,396	$ 4,366,584
Noncompetitive	1,153,305	1,153,305
PUBLIC SUBTOTAL	31,252,701	5,519,889
Federal Reserve	3,745,000	3,745,000
Foreign Official Inst.		
Refunded Maturing	1,740,006	1,740,006
Additional Amounts	335,494	335,494
TOTAL	$ 37,073,201	$ 11,340,389

1/ Equivalent coupon-issue yield.

RR-2455

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
May 18, 1998

Contact: Beth Weaver
(202) 622-2960

STATEMENT OF SECRETARY ROBERT E. RUBIN

Good afternoon. It gives me great pleasure to be here today with Attorney General Janet Reno and Under Secretary Ray Kelly to announce the culmination of the largest and most comprehensive drug money laundering case in the history of U.S. law enforcement. In conjunction with other federal, state and local agencies, the U.S. Customs Service has successfully concluded Operation Casablanca, which for more than three years targeted the primary financial systems utilized by the Juarez and Cali cartels.

Indictments have been brought against three major Mexican financial institutions, two of which have branches in the United States. In addition, officials from 9 other major Mexican financial institutions were directly involved in laundering millions of dollars in drug money for the cartels. Customs expects the arrest of close to 200 individuals as part of this operation.

By infiltrating the highest levels of this international drug trafficking financial infrastructure, Customs was able to crack the elaborate financial schemes the drug traffickers developed to launder the tremendous volumes of cash acquired as proceeds from their deadly trade.

As of this morning, Customs has frozen many of the accounts utilized in this country by these traffickers. Based upon these actions, the traffickers will be unable to recover or transfer any funds we have identified as proceeds from their illegal activities.

Money laundering is the process that enables drug traffickers to convert illegal and unusable proceeds into usable funds. It is the lifeblood of organized crime.

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

It has long been a priority of this Administration to close off the channels narcotraffickers use to move their ill-gotten gains into the economy, to put the traffickers themselves behind bars and to seize their assets.
RR-2456

This investigation demonstrates that priority. Today we have hurt the drug cartels where it hurts the most -- in their pocket books. I want to take a moment to praise the men and women of the Customs Service and the other law enforcement agencies who undertook the important and dangerous task of cracking this case. I would also like to thank the Federal Reserve for their crucial assistance throughout this lengthy investigation.

Thank you and it is my pleasure to introduce the Attorney General of the United States, Janet Reno.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR IMMEDIATE RELEASE
May 18, 1998

Contact: Kelly Crawford
(202) 622-2960

STATEMENT OF THE U.S. TREASURY DEPARTMENT

Following consultations with their shareholders, including the G7, management of both the Asian Development Bank and the World Bank have postponed board consideration of several loans for Indonesia previously scheduled for discussion early this week. The United States concurs with and fully supports this decision.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED UNTIL 2:30 P.M. EDT
Text as Prepared for Delivery
May 19, 1998

TREASURY DEPUTY ASSISTANT SECRETARY FOR FEDERAL FINANCE
ROGER L. ANDERSON
SENATE JUDICIARY SUBCOMMITTEE ON
ADMINISTRATIVE OVERSIGHT AND THE COURTS

I appreciate the opportunity to appear before this subcommittee to present the Treasury Department's views on improving the U.S. legal regime governing netting and termination of certain financial contracts in insolvency situations. Improvements in this area can help to reduce systemic risk in financial markets.

The President's Working Group on Financial Markets realized the importance of this issue and directed the staffs of the various agencies involved in the Working Group to develop a legislative proposal. As a result, staffs of the Treasury Department (including Departmental Offices and the Office of the Comptroller of the Currency), the Federal Deposit Insurance Corporation, the Board of Governors of the Federal Reserve System, the Federal Reserve Bank of New York, the Securities and Exchange Commission, and the Commodity Futures Trading Commission began an intensive effort, which lasted over two years, to craft a legislative proposal. The goals were (1) to eliminate uncertainty in the interpretation of certain provisions of the law, (2) to harmonize, where appropriate, provisions under the Bankruptcy Code and the bank insolvency laws, and (3) to update laws to reflect changes in the market.

On March 16, 1998, Secretary Rubin, as Chairman of the Working Group, transmitted the agencies' legislative proposal to Congress. In his transmittal letter, Secretary Rubin stated: "The proposed legislation, which amends the banking laws and the Bankruptcy Code, is important to the achievement of systemic risk reduction in our financial markets. The Working Group respectfully urges the Congress promptly to consider and pass this important legislative proposal this year."

RR-2458

The legal regime in the U.S. in this area has in general provided more reassurance to market participants than the regimes in many other countries. This is not to say, however, that important improvements in this highly technical area are not necessary. In fact, general recognition of the need to improve the legal regime in this area was expressed in the G-7 finance ministers' final report to the G-7 heads of state and government in Denver last summer.

The finance ministers agreed "to introduce, where necessary and appropriate, legislative measures to ensure the enforceability of sound netting agreements in relation to insolvency and bankruptcy rules to reduce systemic risk in international transactions." The Working Group's legislative proposal, though initiated before the Denver Summit, is also our fulfillment of this agreement to introduce necessary legislative improvements in this area.

Since its adoption in 1978, the Bankruptcy Code has been amended several times in order to provide that, upon the filing of a bankruptcy petition, certain financial transactions are treated differently from the general treatment for commercial contracts and transactions. For example, in 1982 the Code was amended so that "the exercise of a contractual right of a stockbroker, financial institution, or securities clearing agency to cause the liquidation of a securities contract" is not subject to the automatic stay provision of the Code. Absent an exception, the automatic stay prohibits the exercise of certain creditors' rights until lifted by a court. A similar provision was also adopted in 1982 for commodity brokers and forward contract merchants with respect to commodities and forward contracts. In 1984, the exemption from the automatic stay was extended to repurchase agreements, which are an important financing tool in the government securities market, and in 1990, in recognition of the increasing importance of the over-the-counter derivatives market, to swap agreements. The benefits of these last two provisions are effectively not limited to certain types of counterparties.

Creditors who can benefit from these provisions have an obvious advantage over other types of creditors whose contracts and transactions are subject to the automatic stay. In general, the automatic stay not only serves to protect the debtor's estate until matters can be sorted out but also serves to protect creditors from each other. Absent the automatic stay, creditors would all rush to satisfy their claims against the debtor in a situation where not all creditors can be repaid in full. Consequently, it is our view that exceptions to the automatic stay should not be written into the law except when there is an overriding public policy purpose to confer this advantage on certain creditors.

In the case of certain financial contracts, the exception from the automatic stay is justified in order to minimize systemic risk to the financial markets. These markets are vast, have numerous interconnections, and move very quickly. If counterparties to an insolvent entity cannot satisfy the claims arising from financial contracts with that entity, the resulting general uncertainty, particularly the payment difficulties, could have a domino effect on other financial market participants. In such a situation, the freezing of collateral could result in

entities that are fundamentally sound having difficulties making payments they owe because funds they expect to receive are not forthcoming. This disruption could have significant spillover effects on financial markets generally and, hence, on the economy.

The efficient operation of financial markets is extremely important to this country and our economy. It is the government's responsibility to make rules affecting these markets which serve to minimize systemic risk. Therefore, there is an overriding public policy interest in making *limited* exemptions to the normal treatment of creditors in bankruptcy proceedings in order to protect markets important to the operation of the economy as a whole.

The amendments to the Bankruptcy Code that the Working Group has proposed are designed to minimize further systemic risk by strengthening the provisions of the Code relating to termination and close-out netting and related provisions for certain financial agreements and transactions. Close-out netting results in the monetary obligations stemming from a variety of financial contracts between a particular creditor and the insolvent entity to be reduced to a single amount. In crafting these amendments, we attempted to limit the applicability of these provisions to areas where the public policy goal of reducing systemic risk in financial markets provided the justification for making exceptions to the general bankruptcy treatment. We are seeking to protect markets, not particular types of creditors. For example, in the definitions of the types of instruments to which these provisions might apply, we were careful to exclude transactions that are in substance commercial loans. We do not want to create a situation where what is actually a loan receives special treatment just because the documentation calls the transaction a swap.

One of the most important changes to the Code that our proposal makes is to clarify that cross-product close-out netting for certain financial contracts is permitted. Thus, under our proposal, a master netting agreement would allow positions in securities contracts, commodity contracts, forward contracts, repurchase agreements, and swaps to be netted against each other. However, because of the concerns outlined above about not creating exceptions to the automatic stay unless the overriding goal of minimizing systemic risk justifies it, our proposal preserves the limitations on the types of entities that can benefit from the new provisions, which limitations are contained currently in the provisions relating to securities, commodities, and forward contracts.

Also, the proposal is written to retain the provisions of Subchapters III and IV of Chapter 7 of the Code relating to the protection of customer property held by a stockbroker or commodity broker. These Subchapters concern the liquidation of stockbrokers and commodity brokers.

Another important provision of the proposal clarifies that, in the case of a municipality filing for bankruptcy under Chapter 9 of the Code, the provisions of the Code relating to termination and close-out netting of certain financial contracts are applicable. Whether or not this is current law became a subject of dispute in the Orange County bankruptcy.

Other provisions of our legislative proposal amend the banking laws. These provisions, along with the proposed amendments to the Bankruptcy Code, harmonize the definitions of financial contracts receiving special treatment under the two insolvency regimes. Some of the provisions relating to bank insolvency differ from the Bankruptcy Code regime. Generally, the differences are designed to protect the federal deposit insurance funds which have exposure in the case of a depository institution insolvency. For example, under the proposed amendments, we clarify that the conservator or receiver of a failed insured depository institution has one business day to transfer qualified financial contracts from the failed institution to another financial institution. The right of counterparties to terminate, liquidate, or net qualified financial contracts cannot be exercised during this period.

We believe our legislative proposal will reduce systemic risk in our financial markets and serve to maintain our leadership in the world in providing a legal regime with respect to termination and close-out netting which will provide an example and encouragement for other countries to improve their laws in this area. We are gratified that this subcommittee has addressed the issue, and we are hopeful that the banking committees will consider the portions of our proposal which fall under their jurisdiction. We have met with both majority and minority staff of this subcommittee to discuss S.1914 and the differences between it and the Working Group proposal, and we are very encouraged by these discussions. We look forward to continuing to work on this important matter with this subcommittee.

Mr. Chairman, that concludes my prepared statement and I will be happy to answer any questions you and the other members of the subcommittee might have.

-30-

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED UNTIL 2:30 P.M.
May 19, 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 28, 1998. This offering will result in a paydown for the Treasury of about $1,150 million, as the maturing publicly held 13-week and 26-week bills are outstanding in the amount of $14,149 million. In addition to the maturing 13-week and 26-week bills, there are $15,343 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 $13,463 million of the maturing bills. These accounts are considered to hold $7,973 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 $5,261 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 $3,791 million of the original 13-week and 26-week issues.

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

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

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Attachment

RR-2459

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HIGHLIGHTS OF TREASURY OFFERINGS OF WEEKLY BILLS TO BE ISSUED MAY 28, 1998

May 19, 1998

Offering Amount	$5,750 million	$7,250 million
Description of Offering:		
Term and type of security	91-day bill	183-day bill
CUSIP number	912795 AG 6	912795 AS 0
Auction date	May 26, 1998	May 26, 1998
Issue date	May 28, 1998	May 28, 1998
Maturity date	August 27, 1998	November 27, 1998
Original issue date	February 26, 1998	May 28, 1998
Currently outstanding	$10,864 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

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EMBARGOED UNTIL 11 A.M.
May 20, 1998

REMARKS BY TREASURY SECRETARY ROBERT E. RUBIN
PREVIEW OF THE NEW $20 BILL

Thank you. I am pleased to be here today to celebrate the unveiling of the new twenty dollar design and the next phase of our public education campaign.

As you well know by now, the new twenty is the third in a series, following the very successful introduction of the hundred dollar note in 1996 and the fifty last fall. The introduction of this particular note, however, is especially vital -- it represents our continued commitment to doing all we can to keep our currency secure, but it also may the first time most Americans will use newly designed notes with any regularity.

The twenty dollar note is the most popular of the higher-denomination notes. It is the note delivered from Automated Teller Machines into our hands, the note we use every day to pay for groceries, gasoline, or a restaurant meal. Millions and millions of twenties change hands every day. And for that same reason, the twenty is the note most often counterfeited in this country.

It is testimony to the strength of our nation's economy and reputation that our currency continues to be respected throughout the world as a store of value and a means of exchange. And while statistics show the new features are effective, we cannot afford to take this progress for granted. We still face enormous challenges if we are to stay ahead of the technology curve in the coming years.

Each introduction marks a new stage in the government's assault on would-be counterfeiters. But it also give us a fresh opportunity to convey an important message to people who use U.S. currency -- the role that the public must play in keeping our currency secure. Unless everyone who uses U.S. currency assumes responsibility to examine it, the security features of which we are so proud cannot stop counterfeiting. The public is the first line of defense against counterfeiting and we are asking for your help in keeping our currency secure.

RR-2460

Let me take a moment to talk about a few of the improved security of these new notes and how they work. Take note of the larger portrait of Andrew Jackson, with the added detail and fine line patterns behind. If you tilt the note back and forth, you will see the color-shifting ink change from green to black, and back again. And by holding the note up to the light you will see a watermark on the right, and a security thread on the far left with its own tiny lettering and graphics. These are simple things each and every one of us can and should do.

In this new design you will see strong hints of the old. The new twenty still has a familiar American look and feel-- the same paper, the same buildings and statesmen represented, even the same color scheme. It is the same easily recognizable "greenback" known around the world. But we believe that our citizens and businesses will appreciate the useful features we have incorporated to keep our currency secure.

Our designers, engravers, and everyone here at BEP and around government -- and others with whom we have consulted during this arduous process -- fully appreciate that it takes time to get used to something new, particularly something so familiar to us as our money. In the coming months, we will provide messages of reassurance, we will train cash-handlers and other members of the public across the country, and we will do all in our power to ensure a smooth transition to the new, improved twenty. And even as we once again raise the hurdle even higher for criminals, we ensure that our currency remains respected and trusted around the globe.

Let me now introduce the Chairman of the Federal Reserve System, Alan Greenspan.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

EMBARGOED UNTIL 11 A.M.
May 20, 1998

REMARKS BY U.S. TREASURER MARY ELLEN WITHROW
PREVIEW OF THE NEW $20 BILL

Thank you, Tom. You know I never get tired of talking about money. In the two and a half years since we first let the public peek at our new series joined by Ben Franklin himself, I have spoken to countless people around the country and the world about the redesign. Bankers, small business men and women, Rotary Clubs, and especially schoolchildren are eager for information about the new series, and about the notes to come, the ones we use every day. I often remind people that the twenty represents the things we buy all the time, like a tank of gas.

It's not just because my signature is on the money that this job stays exciting. It's also a chance to participate in a worldwide education campaign that has successfully reached the far corners of the globe, ensuring a smooth transition and the continued trust of all those who use our money. And we have an important message for the public-- LOOK AT YOUR MONEY -- take the time to look for the security features in your currency. We've made it very easy, and it only takes a moment, and it is important.

This year we redouble our efforts to get practical information into the hands of *all* those who need it. And we are ambitious. We'd like to see tent cards in local banks and businesses; brochures in the hands of tellers, travel agents and shopping mall security chiefs; and posters in elementary school classrooms to encourage kids to learn more about our monetary system. Already, the National Association of Meal Programs has pledged to disseminate one million placemats to its constituents, and we will provide pamphlets and posters to every post office in the country. And we'll keep looking for partnerships with companies and organizations that can help us deliver information to hard-to-reach audiences and those who need it most.

Last fall I traveled around the country to spread the word about the new fifty and about the new feature that is making our currency more readily identifiable to millions of visually-impaired Americans. But this new twenty dollar note marks the first time we have included a *new* kind of capability -- a machine-readable feature that holds promise for the creation of affordable and portable devices to "read" the currency's denomination. This is a simple feature that easily can be carried over into future generations of currency, regardless of design.

RR-2461

So as time passes and new notes replace older ones, our currency will more and more be readily identifiable to those who are blind. We've already begun to reach out to machine manufacturers and organizations, and are confident such devices will emerge to meet this need. I am proud to be a part of that effort.

Later on in the program we will discuss the many new and improved features of the new currency series in more detail. The Series 1996 design, with its beautiful engravings of Andrew Jackson and the White House and its new security features, is a great accomplishment, and I think you will be pleased with the results of our work.

Now, I am very pleased to introduce the Secretary of the Treasury, Robert Rubin.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED UNTIL 11 A.M.
May 20, 1998

REMARKS OF JOHN D. HAWKE, JR.
UNDER SECRETARY FOR DOMESTIC FINANCE
UNVEILING OF THE NEW $20 NOTE

One of my most interesting assignments in the three years I've been at Treasury has been to chair the Advance Counterfeit Deterrence Steering Committee, an interagency group with representatives of the Bureau of Engraving and Printing, the Secret Service, the Federal Reserve System, and Main Treasury. Since the new currency series was first conceived, this Committee has been examining our own progress in combatting counterfeiting, considering the threats posed by emerging technologies, and examining the possibilities for future changes in our currency design. We get regular reports from the Fed and the Secret Service on the amount of counterfeit U.S. currency that has been passed and seized before passage, both here and abroad, and by this means we are able to identify trends that enforcement authorities need to respond to.

Several months ago the Secret Service called our attention to a significant increase in the incidence of computer generated counterfeiting. The availability of cheap scanners, color inkjet printers and publishing-grade software has encouraged some criminals to go high-tech. We have even seen incidents involving students, who think it is just fun to run off some counterfeit currency. We are taking steps to get out the message that we take ALL counterfeiting very seriously. The Attorney General and the Secretary of the Treasury have jointly been urging heightened enforcement and stiffer penalties for computer generated counterfeiting, and we need to keep reminding the public that counterfeiting is a serious federal crime punishable by fines and prison.

Let me be very clear-- the amount of counterfeiting is still remarkably small. Bogus notes passed on the public represent less than three-one hundredths of one percent of the currency in circulation. But as we have introduced the new series of currency, some counterfeiters have sought to take advantage of the public's unfamiliarity with the new notes. Very often the attempts to counterfeit the new series are not of good quality, and our new anticounterfeit protections have stood up extremely well. It is essential, however, not only that people look at their money – since many counterfeits can be readily identified through careful examination – but that people know what to look for.

To help educate people – particularly cash handlers and people in retail businesses – we have prepared a video training film that is available on request. We have also prepared a wonderful interactive CD-ROM description of the anticounterfeit features of the new currency, which is also available on request as a training aid. I would like to give you a short demonstration of this neat product.

RR-2462

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ORDER FORM

NEW DESIGNS FOR YOUR MONEY
Educational Materials — The New $20 Note

Educational materials about the new U.S. currency are available for training, education, and consumer information purposes in reasonable quantities at no charge. Unless specified, materials are in English. **For individual copies of posters and brochures, please contact your local Federal Reserve Bank.**

- Brochures (available in packets of 100)
- Posters
- Training video (VHS) — **to be shipped separately**
- Kit for Small Businesses (one each of brochure, large and small posters, tent card)
- Tent Cards
- Training CD-ROM — **to be shipped separately**
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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
May 19, 1998

Contact: Hamilton Dix
202-622-2960

TREASURY ESTABLISHES DOLLAR COIN ADVISORY COMMITTEE

Treasury Secretary Robert E. Rubin Tuesday announced the members of the Dollar Coin Advisory Committee established to recommend a design concept for the heads (obverse) side of the new dollar coin.

The nine members of the committee are: Chairman, U.S. Mint Director Philip N. Diehl (non-voting member); The Honorable Michael N. Castle, U.S. Representative from the State of Delaware and Chairman of the House Subcommittee on Domestic and International Monetary Policy; Constance Berry Newman, Under Secretary of the Smithsonian Institution; Peggy Cooper Cafritz, Vice Chair, President's Committee on the Arts and the Humanities; Arthur Houghton, President, The American Numismatic Society; Hilario Candela, Fellow and President of Spillis, Candela and Partners, Inc., architects, and member of the President's Committee on the Arts and the Humanities; artist and sculptor Edward Vega; Gail Shaffer, Executive Director, Business and Professional Women, U.S.A., and Ms. Patricia McGuire, President of Trinity College.

The United States Dollar Coin Act of 1997 (Public Law 105-124) requires the Treasury Department to place into circulation a new dollar coin similar in size to the Susan B. Anthony dollar coin, golden in color with a distinctive edge. The law requires the Treasury Secretary, in consultation with Congress, to select the designs for both sides of the new coin, although the design on the tails (reverse) is required under the statute to depict an eagle.

The statute directs the Treasury Secretary to decide on the image to be depicted on the heads (obverse) side of the coin, and Secretary Rubin has determined that the design should be a representation of one or more women and cannot depict a living person.

The advisory committee will meet June 8 from 11 a.m. until 5:15 p.m. EDT and June 9 from 8 a.m. to 2 p.m. EDT at the Federal Reserve Building, 10 Independence Mall, Philadelphia. The committee will make its recommendation to Secretary Rubin at the conclusion of their meeting. The meeting will be open to the public. However, due to limited space, seating will be on a first-come basis.

Members of the public wishing **to schedule an oral presentation for the meeting on June 8** should submit their request **in writing no later than noon EDT, on Monday, June 1** to Michael White, U.S. Mint by facsimile at (202) 874-4083 or by e-mail through the U.S. Mint's web site at *www.usmint.gov* or by mail at 633 third Street, N.W., Washington, D.C. 20220.

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The request should identify the name of the individual and/or organization who will make the presentation and include an outline of the merits, background and historical significance of the concept that will be advocated. Presentations will be limited to five minutes each. Presenters will be notified by no later than June 5, if they have been selected for presentation. An additional thirty minutes will be set aside during the first day of the meeting for unscheduled presentations. Members of the public who have not been selected in advance for presentation may sign up on the first day of the meeting on June 8, between the hours of 11 a.m. and noon EDT, in the back of the meeting room. Requests for an unscheduled presentation will be reviewed on a first-come basis.

Members of the public also are invited to send their design suggestions to Michael White at the above mailing address, by e-mail or by calling (202) 874-7565 by June 1.

The law requires the new dollar coin to go into circulation once the supply of Susan B. Anthony dollar coins is depleted, estimated to be after 1999.

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TREASURY DEPARTMENT PHOTO POOL ANNOUNCEMENT
May 20, 1998

FOR NEWS PLANNING ONLY, NOT FOR DISTRIBUTION

May 20, 1998, 11:30 a.m.
Photo Pool Spray: B-roll of the new $20 bills during printing, packaging and inspection at the Bureau of Engraving and Printing.

Treasury Department Contact: Hamilton Dix (202) 622-2960

Network TV Pool: CNN

Photo Pool: High resolution 300 dpi jpeg photos available at *www.ustreas.gov/press/photos/*

Treasury Secretary Robert E. Rubin will join Federal Reserve Board Chairman Alan Greenspan to unveil the new $20 note designed to deter counterfeiting at 11 a.m. EDT on Wednesday, May 20, at the Bureau of Engraving and Printing Auditorium, 14th (east side) and C Streets, S.W., Washington, D.C., this event is **OPEN TO ALL MEDIA**.

THE PHOTO POOL will assemble immediately following the event for B-roll coverage. To receive a video feed of the B-roll footage, you must bring a deck a video DA will be available in the Bureau of Engraving and Printing Auditorium at approximately Noon EST.

A satellite feed including portions of the unveiling and B-roll of the new notes in production will also be available and will be transmitted via MEDIALINK as follows:

DISTRIBUTION:	Wednesday, May 20
FEED TIME:	2:30 p.m. - 3:00 p.m. EDT
FEED COORDINATES:	C-Band Galaxy 3/Transponder 18
DOWNLINK:	4060 MHZ, Audio 6.2 and 6.8
Technical assistance contact:	(800) 232-0894

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PHOTO POOL IS MANDATORY POOL, POOL ONLY.

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EMBARGOED UNTIL 2:30 P.M.
May 20, 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 $31,032 million of publicly held securities maturing May 31, 1998, and to pay down about $7,025 million.

In addition to the public holdings, Federal Reserve Banks hold $2,436 million of the maturing securities for their own accounts, which may be refunded by issuing additional amounts of the new securities.

The maturing securities held by the public include $3,918 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.

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Attachment

RR-2466

HIGHLIGHTS OF TREASURY OFFERINGS TO THE PUBLIC OF
2-YEAR AND 5-YEAR NOTES TO BE ISSUED JUNE 1, 1998

May 20, 1998

<u>Offering Amount</u>	$13,000 million	$11,000 million
<u>Description of Offering</u>:		
Term and type of security	2-year notes	5-year notes
Series	AD-2000	G-2003
CUSIP number	912827 4G 4	912827 4H 2
Auction date	May 27, 1998	May 28, 1998
Issue date	June 1, 1998	June 1, 1998
Dated date	May 31, 1998	May 31, 1998
Maturity date	May 31, 2000	May 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	November 30 and May 31	November 30 and May 31
Minimum bid amount	$5,000	$1,000
Multiples	$1,000	$1,000
Accrued interest payable by investor	Determined at auction	Determined at auction
Premium or discount	Determined at auction	Determined at auction
<u>STRIPS Information</u>:		
Minimum amount required	Determined at auction	Determined at auction
Corpus CUSIP number	912820 CZ 8	912820 DA 2
Due date(s) and CUSIP number(s) for additional TINT(s)	Not Applicable	May 31, 2003 — <u>912833</u> RW 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 yield with three decimals, e.g., 7.123%.
(2) Net long position for each bidder must be reported when the sum of the total bid amount, at all yields, and the net long position is $2 billion or greater.
(3) Net long position must be determined as of one half-hour prior to the closing time for receipt of competitive tenders.

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

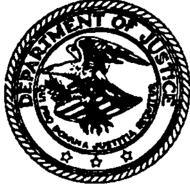
<u>Maximum Award</u> ....35% of public offering

<u>Receipt of Tenders</u>:

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

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

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



DEPARTMENT OF THE TREASURY

Department of Justice

FOR IMMEDIATE RELEASE
May 20, 1998

Contact:
Beth Weaver, Treasury (202) 622-2960
Michael Gordon, Justice (202) 616-2777

OPERATION CASABLANCA CONTINUES ITS SWEEP

Money Laundering Case Extends to Venezuela

The Treasury and Justice Departments today announced additional arrests in Operation Casablanca, the largest drug money laundering case in U.S. history. The undercover operation led by the U.S. Customs Service linked some Mexican banks and banking officials with the laundering of Juarez and Cali cartels' drug profits, and the most recent arrests extend the operation's reach to Venezuelan banks and banking officials.

A fourth indictment was unsealed late Tuesday in U.S. District Court in Los Angeles charging five money launderers. The individuals, Venezuelan nationals, were charged with laundering $9.5 million in illegal drug proceeds through four Venezuelan banks Banco Del Caribe, Banco Industriale de Venezuela, International Finance Bank and Banco Consolidado.

Two of the five individuals named in the indictment were employees of the banks used to launder the drug money. Esperanza de Saad served as the executive vice president for the Banco Industriale de Venezuela agency branch in Miami, and Marco Tulio Henriquez served as a vice president at Banco Del Caribe in Caracas.

Today, Customs agents in Miami arrested Carmen Salima Yrigoyen. Customs arrested Esperanza de Saad in Miami yesterday. On Monday, agents arrested Carlos Izurietta Valery in Los Angeles, and the other two individuals named in the indictment, Roberto Vivas and Marco Tulio Henriquez, are believed to be in Venezuela.

Since Monday, Customs has seized more than $52 million in domestic bank accounts held by the Mexican banks, Mexican defendants and Colombian defendants and seized $1.3 million in cash. The United States is also seeking the forfeiture of $23 million in foreign accounts in 18 countries. Also, since Saturday, 48 individuals have been arrested bringing the total arrests to 160. Customs expects the arrests to reach nearly 200 as part of this investigation.

As previously announced, the Department of Justice will file civil penalty complaints against any financial institutions whose employees were indicted.

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Both Treasury and Justice have been in contact with their Mexican counterparts to discuss Operation Casablanca. The Mexican government has committed to working with the United States to continue to combat money laundering.

Copies of the unsealed indictments for this case may be found at www.usdoj.gov in the "What's New and Hot" section under "New Additions."

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED FOR RELEASE AT 9:15 P.M. EDT
May 20, 1998

"American Economic Challenges: Building for Tomorrow"
Remarks by Lawrence H. Summers
Deputy Secretary of the Treasury
Committee for Economic Development
Chicago, Illinois

These are remarkable times to be American. In the last 300 years there has not been a protracted period when the world's largest economy has been as great a multiple of the world's second largest economy. 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.

Domestically there has not been a time in our recent memory when so many of the things that should be up were so far up: employment, real wages, national savings and investment, and when so many of the things that should be down were so far down: inflation, crime, the welfare rolls.... All this, and the burden of the deficit has at last been lifted.

Commentators have rightly taken note of America's renaissance and considered its lessons. But if the very different view we take today of Asia teaches us something about the relative strengths of our different systems, it also, surely teaches us something about the reliability of the past as a guide to the future. It may be only a little exaggeration to say that in 1998 America has nothing to fear -- except lack of fear itself.

We have come a long way -- if you'll pardon the phrase -- on that bridge to the 21st century. But we have not yet reached the other side and we have not yet built it to last.

If we do not invest and prepare for the future, the miracle of the past decade could falter; if we do not make sure every American takes part in it, it could prove hollow and short-lived. And if we do not carve our place in an open and truly global economy -- our new economy will not realize its full potential. Let me say a little about each of these critical challenges.

I. Preparing for the Future

A central fact confronting everyone who would think seriously about the future of our economy is the aging of our society. When the first Social Security Act was passed in 1940, the average American aged 65 could expect to live another 12.5 years. Today, the comparable figure is 17.5

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years. And as the President has said, a good many children born this year will live to see the 22nd century.

This carries major implications for the structure of our economy -- and thus for future economic policy. In 1960 the ratio of working age Americans to retirees was 5.1 to 1. Today it is 3.3 to 1. In a little more than 30 years' time it will be just 2 to 1, and falling.

How we prepare for this change will be important. Individuals must pay greater attention to laying the foundation for a financially secure retirement. And for the economy as a whole, it must mean expending much greater effort on improving the productivity of our workforce.

But even more important than how we prepare for aging will be *when* we prepare for it. We can do it when the sun is shining. Or when the storm clouds are already overhead. It is obvious which is better. As the Bible said, there is a time to reap and a time to sow -- and now is a time to sow.

As the CED's policy statement on Social Security laid out very clearly -- a major part of the answer will be to increase saving. The good news is that thanks to our victory over the deficit, national saving has more than doubled: from 3.4 percent in 1992 to 7.3 percent last year.

At the start of the first Clinton Administration the deficit for 1998 was projected to be $357 billion. Today we expect a surplus. 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.

And yet, we all need to save more. And if history and the efforts of other countries provide any guide, we *can* save more. For example, in the 1950s and 1960s our national saving rate averaged 11 percent. Today, of the 26 largest industrialized countries, the United States presently ranks 19th in terms of national saving rates.

In an era of surplus we have the means and opportunity to address the challenges to come. Invested wisely, the surpluses could provide a significant down payment on the higher savings the nation needs to equip tomorrow's workers. For example, the projected surpluses could add up to half a percentage point per year to the national saving rate over the next few years, when the surpluses will still not have reached their projected peak.

But the surpluses could do more than simply raise national savings. They could also be used to help ensure that Social Security is in a position to meet its obligations to tomorrow's retirees.

If the surpluses are dissipated, they will not achieve either critical objective -- and the country will be that much less prepared for the future and that much less able to continue the tremendous growth record of the past decade.

That is what why the President has proposed that we put Social Security first in deciding how our surpluses will be used. We must do it because it is the right way to ensure that the surpluses are not wasted, but used to prepare for the challenges of tomorrow. And we must do it because it is the right

way to strengthen and prepare Social Security to meet *its* future obligations -- to ensure that it is there for us, and it is there for our children.

It is too early for predictions or conditions. But the debate we have ahead of us will not be taking place in a vacuum. These past years there has been an enormous amount of careful study of this issue, by the CED, by other thoughtful people on both sides of the Congressional aisle and every part of the academy and broader policy community.

These studies and proposals lead to many issues that will be debated, including:

1. Should we transfer unified budget surpluses to the Social Security Trust Fund?

2. Should we invest some of the Social Security Trust Fund's assets in private-sector equities?

3. And should we, as the CED has suggested, create a system of individual investment accounts, and fund them either by redirecting some of the payroll tax, by using some of the budget surpluses, or through some other funding mechanism?

We shall be debating these and other critical issues as we go forward. Let me just make one thing clear: the debate we will have about the reform of Social Security will not be about *whether* to protect its historic achievements. It will be about finding *how* best to protect them.

Like the CED, like most Americans, we believe it is vital to preserve Social Security as a public trust and preserve its role in protecting the economic security of retired Americans. By ensuring that the surplus is reserved until Social Security is safe, we can live up to that commitment. And we can do so in a way that strengthens the economy and promotes our hard-earned fiscal discipline. We can. And we must.

II. Making Growth Inclusive

Goethe once said that the time when the light is brightest is when the shadows are darkest. Future generations will judge us less by the brightness of our times than by our capacity to confront its shadows: the problems we have not yet solved and the dangers we have not yet averted.

A little more than a quarter of a century ago Michael Harrington famously wrote about the "other America": the one quarter of Americans that were still living in poverty; the 30 to 40 million people who were "increasingly slipping out of the very experience and consciousness of the nation". Thanks to Social Security, a very large element of that other America -- poverty among the elderly -- has been dramatically reduced. In 1960 at least one half of our retired population struggled to meet their most basic daily needs. Today, the poverty rate among the elderly is significantly lower than for other age groups: and for 40 percent of them, Social Security is what keeps them above the line.

And yet, in other respects Harrington's description still rings disturbingly true today. Indeed, the relative marginalization of the other America is the worse for the rising opportunities others have enjoyed:

- some 40 percent of Black Americans now earn middle class incomes -- but every day, 700 black children are born into poverty and 1000 Black high school graduates do not go on to college.

- opportunities for graduates have never been more plentiful, but a child born in New York today stands a smaller chance of living to five or learning to read than a child born in Shanghai, and fully two percent of American men in the prime of their life are in prison.

- technology and competition are bringing more and better financial services to millions of Americans, but 10 percent of the population still does not have a bank account and can pay as much as 10 percent fees to pawn shops to get get their paychecks cashed.

Exclusivity is good for building a successful nightclub. It is no way to build a strong economy. 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 the Other America is not just a moral necessity but an economic one.

If our success is to continue, and if our economy is to be what it has to be -- 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. That is why:

- President Clinton has been the education president, pushing through historic investments in Head Start programs; expanded public school choice; 220,000 new Pell Grant scholarships; tax free education IRAs; an Internet connection for every school connecting every school to the Internet and in sending college students into schools to ensure every 8 year-old can read;

- we have worked to clear a path from welfare to work, cutting the welfare rolls by a third -- by more than two million in 1997 alone -- and investing in the child care, training programs and other forms of support that will be needed to make welfare reform a success;

And it is why, at Treasury, we have worked to democratize the access to capital and bring new investments to our inner cities. As part of this effort we have revitalized our commitment to the Community Reinvestment Act: since 1992, the private sector is estimated to have pledged $70 billion in CRA loans, fully 85% of the loan commitments made since CRA was passed in 1977. And we have created the Community Development Financial Institutions Fund, which has already made $75 million in grants, loans, equity investments and technical assistance, money that will be leveraged 3-4 times in support for our most disadvantaged neighborhoods.

We have achieved a great deal. But we have a great deal more to do. To repeat, there is no single solution to these problems -- and is certainly no simple one. But when the sun is shining on so many Americans we owe it to every American to work to bring as many as possible into the light.

III. Strengthening the Global Financial System

I have dwelt on the domestic challenges we face if we are to prepare for the future and ensure every American benefits from it. But the challenges we face at home are not separable from the challenges we face abroad. The past decade has shown how well suited we are as a nation and as an economy to the challenges that a more global world economy presents. But if the world beyond our borders has been a critical part of our current success -- it will be an even more important part of our future.

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. One third of the growth in GDP we have enjoyed in this expansion has come through exports.

A large part of the reason for this growth has been the unprecedented growth we have seen in recent years in the developing world: growth that is unprecedented in human history. We have seen 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.

Continuing this growth in the developing world is tremendously important for our economy and our security. It will involve a great many things. Let me focus here on one very important part of the growth we have already seen. This is the 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.

The recent experience in Asia -- a story that is far from over, of course -- has highlighted the dangers that financial crises can pose to countries and to the international system as a whole. But the response to these events cannot be to withdraw ourselves from the global economy or to somehow turn back the clock on the global financial system. The response must be to work to strengthen the system to increase its capacity to support growth and lessen its capacity to cause instability.

At the G8 meetings in Birmingham this weekend there was overwhelming agreement on the importance of having a global capital market as a major contributor to growth around the world, and on the importance of backing that global capital market with strong support from the IMF, and with strong policy by countries that receive these capital flows to best ensure that they are used wisely and will not become a source of instability and contagion down the road.

The long-term reform agenda has four elements. First, greater transparency. If you look at the growth of the American stock market, no innovation in the last century has been as important as the idea of generally accepted accounting principles. As part of the effort, IMF members are being urged to sign up to its new special data dissemination standards -- and work is under way to expand these to offer a more complete picture of the assets and liabilities of the public and private sector, particularly the off balance sheet liabilities that have never been reported of certain central banks contributing to the Asian financial crisis.

Second, we are calling on the IMF to help countries throughout the world prepare for global capital flows by calling on the IMF both to monitor these flows, particularly short-term flows, and to provide advice to countries on how best to manage orderly capital account liberalization.

Third, we need to work to strengthen national financial systems by encouraging all countries to adopt and implement the Basle core principles of effective banking supervision which were an outgrowth of the last two summits, as well as the development of international codes and guidelines for corporate

governance and accounting principles. Perhaps most important, we need to establish a system of multilateral surveillance of national financial systems, much the same way that we have been surveilling macroeconomic policy of countries for a long time.

Finally, we will need to find ways to ensure that the private sector takes full responsibility for its own decisions in order to reduce moral hazard. In particular, that means the encouragement of bankruptcy laws around the world and called for the IMF to make clear that in appropriate circumstances it would lend money to countries even though they were in arrears to private creditors.

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.

We should not forget that there has been another time in our nation's history when our companies were enjoying unprecedented success at home and abroad; when our elected leaders vowed to shrink government; and when, for all of economy's success, 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 that experience holds critical lessons about the importance of outward-looking international policies at a time of enormous change in global affairs.

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. 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.

I have spoken today of the many investments America needs to make if today's success is to be used wisely and the sunshine is to continue. Many of these will involve difficult choices and a good few will be expensive. Investing in the IMF is neither. What it is, is common sense.

DEPARTMENT OF THE TREASURY

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EMBARGOED UNTIL 10:30 AM
May 21, 1998

TREASURY SECRETARY ROBERT E. RUBIN
HOUSE AGRICULTURE COMMITTEE

Mr. Chairman, members of this Committee, let me spend a few minutes to discuss the critical importance of approving funding for the International Monetary Fund in light of our attempts to help restore financial stability in Asia, and examine the impact of the crisis on American businesses, workers and farmers.

Let me make one overarching point to start. We have critical economic and national security interests in restoring financial stability in Asia. Nearly forty percent of America's agricultural production is exported -- and forty percent of those exports go to Asia. In general, 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 farmers and workers. Moreover, if the problem were to spread to developing countries around the globe, the potential impact on our economy could be severe.

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. A stable and prosperous Asia is more likely to be a peaceful Asia -- as was the case over the last decade when Asia was experiencing dynamic growth. Economic stability and political stability, political reform and social stability are separate but closely interrelated, and they all promote peace and our national security interests.

In short, Mr. Chairman, by doing everything sensible to help these Asian countries get back on track, we support our exports to the region, reduce the risk that financial instability will spread to other developing countries with potentially severe effects on us, and help protect our national security interests in the region and around the world.

RR-2469

Mr. Chairman, there are difficult times ahead for the Asian countries in crisis and many challenges to be met, but a number of the countries affected by the recent crisis have committed themselves to sustained reform and that has led to signs of progress. Moreover, the contagion risk that threatened in the early stages of the crisis has so far largely been contained and economic instability has not spread to other developing countries.

In Korea, newly inaugurated President Kim has acted strongly to implement the IMF-supported economic reform program and has worked effectively to reschedule Korea's debt with Western banks. Thailand's new government has also acted strongly to implement the IMF reform program, particularly in beginning to restructure its banking sector. Investors are starting to show renewed confidence in these countries, though, as I said, there are difficult times and great challenges ahead for both Korea and Thailand.

Let me say a word now about Indonesia. Although the political situation is changing rapidly, I do want to make a couple of points. First, it is important to emphasize that it is the economic crisis and political conditions in Indonesia -- and the Indonesian government's mishandling of the crisis -- that have led to a loss of confidence in the government by the Indonesian people and the global financial markets. All of this, in turn, exacerbated the current economic problems and led to political instability. The IMF reform program was a creative response to the economic crisis, not a cause. The IMF program did include difficult measures, but implementing difficult measures is always necessary in restoring financial stability. There are no easy answers to financial crisis, but there are many examples of the necessary rigors of IMF-led reform promoting real progress: Latin America in the 1980's; Russia, though it has many great challenges ahead, and Poland and other ex-communist nations in the early 1990's; and Mexico in the mid-1990's. And if a country is not successful in taking tough steps, and getting back on track, the crisis will very likely be far deeper and far longer and conditions far worse than during the difficult period of implementing reform. The key in all of these situations is for the government and the people to internalize and commit to reform on a sustained basis. It is also important to note that the IMF typically includes specific provisions in the programs to reduce impact on the poor, and that was so in Indonesia.

Second, when the financial crisis developed in Indonesia late last year, the most immediate and pressing issue was to restore financial stability. At the same time, the Administration has always recognized the close links between financial stability, political stability, political reform and pluralism. But it is also important to note that restoring financial stability in a crisis is essential both to prevent the most vulnerable from further suffering and to lay the foundation of long-term economic health necessary for political reform and stability. In the earlier state of the Indonesian crisis, the IMF and the international community that attaching political reform conditions to the IMF programs would not have worked; indeed, for very important reasons, the IMF is barred in its own charter from engaging in political conditionality. Therefore, we pursued political and human rights objectives through other means. Moreover, significant components of the IMF-led reform program were designed to undo the monopolies and price subsidies that were part and parcel of the existing system, and this was a step to reform. Clearly, the circumstances have now

changed, and in addition to the President's statement last week, the United States joined with the other nations in the G-8 this past weekend calling for political reform in Indonesia. In the short term for Indonesia, restraint by the authorities and political dialogue and reform are necessary to reestablish political and social stability and create a framework within which essential IMF-supported economic reforms can be implemented to restore financial stability.

All financial crises involve enormous economic, political and social complications and uncertainties, but those uncertainties must not stop us from acting. Instead, the international community, through the IMF and otherwise, must make the most practical judgements as to what is most likely to work with respect to the interrelated objectives of financial stability, economic well-being, political stability, political reform, and human rights -- and then adapt their programs' approaches as circumstances warrant. This is a most difficult undertaking: the results take time, and there is no easy course, but undertaking this effort is critically in our interest.

The financial assistance mobilized by the International Monetary Fund has played a key role in providing breathing room and developing strong reform programs for these countries. What is important now is sustained adherence to these strong reform programs, as difficult economically and politically as that may be. This is the best path back, and the alternative to reform is far worse. Sound macroeconomic policies, stronger financial systems, structural reform and more open markets are key to restoring financial stability and to the long term economic health of these nations.

Let me now say a few words about the impact of the crisis on the US economy. We have begun to be directly affected by events in Asia. On an annualized basis, exports to the key countries were down about $23 billion in the first three months of this year, and that is likely to worsen in the months ahead.

Moreover, the effects are being felt by America's farmers. As I said earlier, nearly forty percent of America's agricultural production is exported, and forty percent of our agricultural exports -- about $23 billion -- go to Asia. Many fishermen in Alaska are suffering because depreciating currencies have caused their fish to be too expensive for Asian markets. For example, Seattle-based NorQuest Seafoods, Inc, which procures much of its catch from Alaska, reports that demand for surimi, a fish paste used in artificial crabmeat, has declined by about 30 percent. Corn farmers in the Midwest, livestock producers in the West, are all feeling the effects. Corn exports are expected to fall seven million tons, or 11 percent. Cattle and other livestock exports are expected to drop to $7.5 billion this year from $8.2 billion projected before the crisis and $7.7 billion last year. American farmers have a tremendous stake in a restoration of economic health in the region, and a tremendous stake in preventing future crises or most effectively dealing with them and containing them if they occur -- and that gives them a large stake in the future strength of the IMF.

Let me point out that the recent IMF programs in Asia included significant market-opening and structural reform measures that increase the opportunities for US farm exporters. Additionally, we are taking bilateral actions to help farmers. US bilateral export assistance has been stepped up via more than $2 billion in additional export credit guarantees. The US ExIm Bank has also assisted U.S. capital goods exporters with $4 billion in additional short-term trade insurance available for sales to the countries in crisis.

The IMF has been central to the effort to restore financial stability through reform programs to address the causes of crisis in each nation. The IMF has the expertise to shape effective reform programs, the leverage to require a country to accept conditions that no assisting nation could require on its own, and it internationalizes the burden.

Our contributions to the IMF have not cost the taxpayer one dime in fifty years. When the IMF draws on our commitments, we receive a liquid, 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.

We are asking Congress to approve funding for our participation in the IMF as quickly as possible. As a result of the recent situation in Asia, the IMF's normal financial resources are approaching a historically low level, and the IMF does not have sufficient funds to deal with a truly major crisis, for instance if the Asian crisis were to worsen and spread to developing countries elsewhere, or if a new crisis were to develop. It is in our economic interest to have that vulnerability exist for as little time as possible.

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 reestablishing stability in Asia and 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.

Some have suggested that we should not advance new monies to the IMF unless it agrees to attach certain conditions to all its reform programs. We agree with the importance of many of these objectives. Let me discuss a few steps we are taking to strengthen the IMF and to prevent future crises or deal with them when they occur.

First, we are actively promoting a broad range of reforms within the IMF to make it a more effective institution -- reforms that are directly responsive to suggestions by members of Congress -- and many of these have been attached to the legislation passed in the Senate and passed in the House Banking and House Appropriations Committees. Our contribution to the IMF affords us enormous influence in the IMF, but it does not give us the capacity to control the institution. Important changes and policy decisions require that we work with the 180 member countries and build support for our policies. Thus, while we can and do work energetically to achieve these objectives, some can be accomplished quickly, and others will take time.

Second, we have been working to develop mechanisms so that investors and creditors more fully bear the consequences of bad decisions. In fact, many creditors and investors, have taken large losses in Asia. However, a byproduct of programs designed to restore stability and growth may be that some creditors will be protected from the full consequences of their actions. That is because any action to force investors and creditors involuntarily to take losses, however

appropriate that might seem, could cause banks to pull their money out of the country involved, and, perhaps from other emerging markets, which, in turn, could cause serious global economic disruptions.

The United States is leading an international effort to strengthen the architecture of the international financial system to address this question of moral hazard, and, more generally, to better prevent financial crises and better manage those that occur. Last month, I hosted a meeting of finance ministers and central bank governors from 22 countries to focus on this problem.

The United States believes reform of the international financial system should focus on three areas: First, an increase in transparency and disclosure so that investors have better information with which to make good decisions. However, investors must then use that information well. We were struck during the Asia crisis by how little rigorous risk analysis was done by many creditors and investors. Second, strengthening domestic financial systems, to reduce the risk of economic and financial crises. Virtually all financial crises in developing countries either began in or were exacerbated by badly flawed financial sectors. Finally, as I just discussed, we must work to create mechanisms so that creditors and investors more fully bear the consequences of their actions.

Mr. Chairman, let me conclude by reiterating how important it is to secure full IMF funding now, even as we work to improve the IMF and strengthen the international financial architecture. We live in an interdependent world, where the conditions in one country or a group of countries can dramatically affect the economic well-being of farmers and workers in this country. We need the IMF to help deal with financial instability problems when they occur. 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, is small. But these occurrences are possible and the consequences to us could be severe. We cannot afford to take the risk that such events could start to unfold and the IMF does not have the capacity to try to cope effectively. Recognizing the importance of moving forward, the Senate approved funding by a vote of 86-14. I urge you to follow suit. The full IMF funding is needed now, to protect the interests of American farmers, businesses and workers. Thank you very much.

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FEDERAL FINANCING BANK
MARCH 1998 ACTIVITY

BORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST RATE
AGENCY DEBT				
U.S. POSTAL SERVICE				
U.S. Postal Service	3/2	$87,900,000.00	3/3/98	5.509% S/A
U.S. Postal Service	3/2	$575,000,000.00	3/3/98	5.444% S/A
U.S. Postal Service	3/2	$50,000,000.00	3/3/98	5.444% S/A
U.S. Postal Service	3/2	$25,000,000.00	3/3/98	5.444% S/A
U.S. Postal Service	3/3	$88,600,000.00	3/4/98	5.478% S/A
U.S. Postal Service	3/3	$275,000,000.00	3/4/98	5.384% S/A
U.S. Postal Service	3/3	$50,000,000.00	3/4/98	5.384% S/A
U.S. Postal Service	3/3	$25,000,000.00	3/4/98	5.384% S/A
U.S. Postal Service	3/4	$47,600,000.00	3/5/98	5.436% S/A
U.S. Postal Service	3/4	$100,000,000.00	3/5/98	5.353% S/A
U.S. Postal Service	3/4	$50,000,000.00	3/5/98	5.353% S/A
U.S. Postal Service	3/4	$25,000,000.00	3/5/98	5.353% S/A
U.S. Postal Service	3/5	$31,840,000.00	3/6/98	5.425% S/A
U.S. Postal Service	3/6	$18,500,000.00	3/9/98	5.402% S/A
U.S. Postal Service	3/6	$725,000,000.00	3/9/98	5.300% S/A
U.S. Postal Service	3/6	$50,000,000.00	3/9/98	5.300% S/A
U.S. Postal Service	3/6	$25,000,000.00	3/9/98	5.300% S/A
U.S. Postal Service	3/9	$42,000,000.00	3/10/98	5.364% S/A
U.S. Postal Service	3/9	$1,075,000,000.00	3/10/98	5.277% S/A
U.S. Postal Service	3/10	$39,000,000.00	3/11/98	5.343% S/A
U.S. Postal Service	3/10	$865,000,000.00	3/11/98	5.239% S/A
U.S. Postal Service	3/10	$50,000,000.00	3/11/98	5.239% S/A
U.S. Postal Service	3/11	$86,000,000.00	3/12/98	5.343% S/A
U.S. Postal Service	3/11	$725,000,000.00	3/12/98	5.218% S/A
U.S. Postal Service	3/11	$50,000,000.00	3/12/98	5.218% S/A
U.S. Postal Service	3/12	$69,300,000.00	3/13/98	5.332% S/A
U.S. Postal Service	3/12	$575,000,000.00	3/13/98	5.218% S/A
U.S. Postal Service	3/12	$50,000,000.00	3/13/98	5.218% S/A
U.S. Postal Service	3/12	$25,000,000.00	3/13/98	5.218% S/A
U.S. Postal Service	3/13	$59,600,000.00	3/16/98	5.340% S/A
U.S. Postal Service	3/13	$500,000,000.00	3/16/98	5.207% S/A
U.S. Postal Service	3/13	$50,000,000.00	3/16/98	5.207% S/A
U.S. Postal Service	3/13	$25,000,000.00	3/16/98	5.207% S/A
U.S. Postal Service	3/16	$46,400,000.00	3/17/98	5.374% S/A
U.S. Postal Service	3/16	$350,000,000.00	3/17/98	5.215% S/A
U.S. Postal Service	3/16	$50,000,000.00	3/17/98	5.215% S/A
U.S. Postal Service	3/16	$25,000,000.00	3/17/98	5.215% S/A
U.S. Postal Service	3/17	$41,700,000.00	3/18/98	5.395% S/A
U.S. Postal Service	3/17	$150,000,000.00	3/18/98	5.249% S/A
U.S. Postal Service	3/18	$24,400,000.00	3/19/98	5.416% S/A
U.S. Postal Service	3/20	$29,200,000.00	3/23/98	5.433% S/A
U.S. Postal Service	3/20	$600,000,000.00	3/23/98	5.300% S/A
U.S. Postal Service	3/20	$50,000,000.00	3/23/98	5.300% S/A

S/A is a Semi-annual.

FEDERAL FINANCING BANK
MARCH 1998 ACTIVITY

BORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST RATE
AGENCY DEBT				
U.S. POSTAL SERVICE				
U.S. Postal Service	3/23	$950,000,000.00	3/24/98	5.308% S/A
U.S. Postal Service	3/23	$50,000,000.00	3/24/98	5.308% S/A
U.S. Postal Service	3/24	$5,700,000.00	3/25/98	5.416% S/A
U.S. Postal Service	3/24	$725,000,000.00	3/25/98	5.291% S/A
U.S. Postal Service	3/24	$25,000,000.00	3/25/98	5.291% S/A
U.S. Postal Service	3/25	$60,900,000.00	3/26/98	5.426% S/A
U.S. Postal Service	3/25	$575,000,000.00	3/26/98	5.291% S/A
U.S. Postal Service	3/25	$25,000,000.00	3/26/98	5.291% S/A
U.S. Postal Service	3/26	$17,700,000.00	3/27/98	5.467% S/A
U.S. Postal Service	3/26	$425,000,000.00	3/27/98	5.301% S/A
U.S. Postal Service	3/26	$50,000,000.00	3/27/98	5.301% S/A
U.S. Postal Service	3/27	$59,400,000.00	3/30/98	5.465% S/A
U.S. Postal Service	3/27	$325,000,000.00	3/30/98	5.342% S/A
U.S. Postal Service	3/27	$50,000,000.00	3/30/98	5.342% S/A
U.S. Postal Service	3/30	$175,000,000.00	3/31/98	5.426% S/A
U.S. Postal Service	3/30	$100,000,000.00	3/31/98	5.340% S/A
U.S. Postal Service	3/30	$25,000,000.00	3/31/98	5.340% S/A
U.S. Postal Service	3/31	$82,400,000.00	4/1/98	5.405% S/A
GOVERNMENT - GUARANTEED LOANS				
GENERAL SERVICES ADMINISTRATION				
Chamblee Office Building	3/18	$42,075.12	4/1/99	5.491% S/A
Chamblee Office Building	3/18	$3,906,768.65	4/1/99	5.491% S/A
Foley Square Office Bldg.	3/30	$5,130.00	7/31/25	6.061% S/A
Memphis IRS Service Cent.	3/30	$1,133,282.20	1/2/25	6.059% S/A
GSA/PADC				
ICTC Building	3/18	$7,924,552.85	11/2/26	5.985% S/A

S/A is a Semi-annual rate.

FEDERAL FINANCING BANK
MARCH 1998 ACTIVITY

BORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST RATE
GOVERNMENT - GUARANTEED LOANS				
RURAL UTILITIES SERVICE				
Shelby County Elec. #465	3/4	$328,000.00	6/30/28	6.127% Qtr.
Central Iowa Power #442	3/23	$6,500,000.00	12/31/29	5.942% Qtr.
Horry Tele. Coop. #419	3/25	$5,802,000.00	12/31/12	5.706% Qtr.
Coastal Elec. #460	3/27	$609,000.00	12/31/31	6.026% Qtr.
Marshalls Energy Co. #458	3/27	$1,132,000.00	1/2/18	6.344% Qtr.
*Allegheny Electric #255	3/31	$3,507,468.78	9/30/98	5.385% Qtr.
*Allegheny Electric #255	3/31	$5,011,295.04	9/30/98	5.385% Qtr.
*Allegheny Electric #908	3/31	$928,688.92	6/30/98	5.176% Qtr.
*Allegheny Electric #908	3/31	$2,841,718.53	6/30/98	5.176% Qtr.
*Allegheny Electric #908	3/31	$4,115,372.93	6/30/98	5.176% Qtr.
*Allegheny Electric #908	3/31	$2,605,245.52	9/30/98	5.384% Qtr.
*Arkansas Elec. #920	3/31	$3,964,522.98	6/30/98	5.176% Qtr.
*Arkansas Elec. #920	3/31	$606,321.35	6/30/98	5.176% Qtr.
*Arkansas Elec. #920	3/31	$34,696.43	6/30/98	5.176% Qtr.
*Arkansas Elec. #920	3/31	$60,481.53	6/30/98	5.176% Qtr.
*Arkansas Elec. #920	3/31	$410,460.94	6/30/98	5.176% Qtr.
*Arkansas Elec. #920	3/31	$18,473.61	6/30/98	5.176% Qtr.
*Arkansas Elec. #920	3/31	$5,489,026.04	6/30/98	5.176% Qtr.
*Arkansas Elec. #920	3/31	$4,907,419.35	6/30/98	5.176% Qtr.
*Arkansas Elec. #920	3/31	$1,761,317.51	6/30/98	5.176% Qtr.
*Arkansas Elec. #920	3/31	$5,522,561.45	6/30/98	5.176% Qtr.
*Arkansas Elec. #920	3/31	$3,678,013.90	6/30/98	5.176% Qtr.
*Arkansas Elec. #920	3/31	$2,883,310.60	6/30/98	5.176% Qtr.
*Arkansas Elec. #920	3/31	$4,213,202.71	6/30/98	5.176% Qtr.
*Arkansas Elec. #920	3/31	$2,571,413.49	6/30/98	5.176% Qtr.
*Arkansas Elec. #920	3/31	$2,804,299.98	6/30/98	5.176% Qtr.
*Arkansas Elec. #920	3/31	$4,052,733.69	6/30/98	5.176% Qtr.
*Arkansas Elec. #920	3/31	$5,888,350.46	6/30/98	5.176% Qtr.
*Arkansas Elec. #920	3/31	$3,890,225.28	6/30/98	5.176% Qtr.
*Arkansas Elec. #920	3/31	$4,324,667.48	6/30/98	5.176% Qtr.
*Arkansas Elec. #920	3/31	$3,333,163.92	6/30/98	5.176% Qtr.
*Basin Electric #425	3/31	$41,025,960.77	6/30/98	5.301% Qtr.
*Brazos Electric #917	3/31	$3,915,582.49	3/31/08	5.685% Qtr.
*Brazos Electric #917	3/31	$3,658,597.36	6/30/98	5.176% Qtr.
*Brazos Electric #917	3/31	$1,320,655.66	3/31/08	5.685% Qtr.
*Brazos Electric #917	3/31	$1,624,994.65	6/30/98	5.176% Qtr.
*Brazos Electric #917	3/31	$400,446.22	6/30/98	5.176% Qtr.
*Brazos Electric #917	3/31	$923,653.63	6/30/98	5.176% Qtr.
*Brazos Electric #917	3/31	$1,206,005.46	6/30/98	5.176% Qtr.
*Brazos Electric #917	3/31	$803,123.77	6/30/98	5.176% Qtr.
*Brazos Electric #917	3/31	$461,752.96	6/30/98	5.176% Qtr.
*Brazos Electric #917	3/31	$442,030.77	4/1/13	5.786% Qtr.

Qtr. is a Quarterly rate.
* maturity extension or interest rate reset

FEDERAL FINANCING BANK
MARCH 1998 ACTIVITY

BORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST RATE
GOVERNMENT - GUARANTEED LOANS				
RURAL UTILITIES SERVICE				
*Brazos Electric #917	3/31	$863,284.65	6/30/98	5.176% Qtr.
*Brazos Electric #917	3/31	$274,322.36	4/1/13	5.794% Qtr.
*Brazos Electric #917	3/31	$1,031,268.66	6/30/98	5.176% Qtr.
*Brazos Electric #917	3/31	$2,030,045.44	4/1/13	5.794% Qtr.
*Brazos Electric #917	3/31	$332,551.98	6/30/98	5.176% Qtr.
*Brazos Electric #917	3/31	$98,579.26	4/1/13	5.794% Qtr.
*Brazos Electric #917	3/31	$241,353.13	6/30/98	5.176% Qtr.
+Brazos Electric #917	3/31	$410,418.90	6/30/98	5.213% Qtr.
+Brazos Electric #917	3/31	$240,539.93	6/30/98	5.213% Qtr.
+Brazos Electric #917	3/31	$172,340.14	6/30/98	5.213% Qtr.
+Brazos Electric #917	3/31	$150,142.39	6/30/98	5.213% Qtr.
+Brazos Electric #917	3/31	$82,258.87	6/30/98	5.213% Qtr.
+Brazos Electric #917	3/31	$124,300.79	6/30/98	5.213% Qtr.
+Brazos Electric #917	3/31	$40,007.46	6/30/98	5.213% Qtr.
+Brazos Electric #917	3/31	$1,311,880.39	6/30/98	5.213% Qtr.
*Brazos Electric #917	3/31	$163,986.37	6/30/98	5.176% Qtr.
*Brazos Electric #917	3/31	$565,782.50	6/30/98	5.176% Qtr.
*Brazos Electric #917	3/31	$2,942,641.86	6/30/04	5.654% Qtr.
*Brazos Electric #917	3/31	$968,266.09	6/30/98	5.176% Qtr.
*Brazos Electric #917	3/31	$115,788.13	6/30/98	5.176% Qtr.
+Brazos Electric #917	3/31	$264,206.54	6/30/98	5.213% Qtr.
+Brazos Electric #917	3/31	$990,260.27	6/30/98	5.213% Qtr.
+Brazos Electric #917	3/31	$2,966,236.97	6/30/98	5.213% Qtr.
+Brazos Electric #917	3/31	$1,776,398.90	6/30/98	5.213% Qtr.
+Brazos Electric #917	3/31	$1,064,595.23	6/30/98	5.213% Qtr.
+Brazos Electric #917	3/31	$642,776.67	6/30/98	5.213% Qtr.
*Brazos Electric #917	3/31	$58,269.79	4/1/13	5.816% Qtr.
*Brazos Electric #917	3/31	$722,628.14	4/1/13	5.816% Qtr.
*Brazos Electric #917	3/31	$891,773.43	4/1/13	5.816% Qtr.
*Brazos Electric #917	3/31	$2,424,731.91	4/1/13	5.816% Qtr.
*Brazos Electric #917	3/31	$484,685.54	4/1/13	5.816% Qtr.
*Brazos Electric #917	3/31	$4,934,693.94	4/1/13	5.816% Qtr.
*Brazos Electric #917	3/31	$1,134,021.83	4/1/13	5.816% Qtr.
*Brazos Electric #917	3/31	$2,272,554.69	4/1/13	5.816% Qtr.
*Brazos Electric #917	3/31	$22,818,920.34	3/31/08	5.684% Qtr.
*Brazos Electric #917	3/31	$666,611.36	4/1/13	5.806% Qtr.
*Brazos Electric #917	3/31	$456,056.84	6/30/98	5.176% Qtr.
*Brazos Electric #917	3/31	$2,093,130.97	4/1/13	5.806% Qtr.
*Brazos Electric #917	3/31	$1,223,605.70	6/30/98	5.176% Qtr.
*Brazos Electric #917	3/31	$1,589,865.16	6/30/98	5.176% Qtr.
*Brazos Electric #917	3/31	$2,613,818.90	6/30/98	5.176% Qtr.

Qtr. is a Quarterly rate.
* maturity extension or interest rate reset
\+ 306C refinancing

FEDERAL FINANCING BANK
MARCH 1998 ACTIVITY

BORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST RATE
GOVERNMENT - GUARANTEED LOANS				
RURAL UTILITIES SERVICE				
*Brazos Electric #917	3/31	$2,797,806.54	6/30/98	5.176% Qtr.
*Brazos Electric #917	3/31	$550,790.85	6/30/98	5.176% Qtr.
*Brazos Electric #917	3/31	$17,821.82	6/30/98	5.176% Qtr.
*Brazos Electric #917	3/31	$1,824,177.98	4/1/13	5.806% Qtr.
*Brazos Electric #917	3/31	$939,665.16	6/30/98	5.176% Qtr.
*Brazos Electric #917	3/31	$2,529,798.54	4/1/13	5.806% Qtr.
*Brazos Electric #917	3/31	$803,719.21	4/1/13	5.806% Qtr.
*Brazos Electric #917	3/31	$3,078,471.79	6/30/98	5.176% Qtr.
*Brazos Electric #917	3/31	$2,409,613.12	6/30/98	5.301% Qtr.
*Brazos Electric #437	3/31	$4,500,000.00	4/1/13	5.953% Qtr.
*Brazos Electric #437	3/31	$4,500,000.00	4/1/13	5.953% Qtr.
*Brazos Electric #437	3/31	$4,463,000.00	3/31/08	5.806% Qtr.
*Brazos Electric #437	3/31	$3,041,000.00	4/1/13	5.953% Qtr.
*Brazos Electric #437	3/31	$4,367,000.00	6/30/98	5.301% Qtr.
*Citizens Utilities #387	3/31	$4,441,518.09	1/3/28	6.052% Qtr.
*Coop. Power Assoc. #070	3/31	$8,317,142.76	6/30/98	5.301% Qtr.
*Coop. Power Assoc. #156	3/31	$1,127,752.20	6/30/98	5.301% Qtr.
*Coop. Power Assoc. #156	3/31	$1,663,888.73	6/30/98	5.301% Qtr.
@Dairyland Power #161	3/31	$3,339,209.05	1/2/18	5.969% Qtr.
@Dairyland Power #161	3/31	$2,154,789.63	1/2/18	5.969% Qtr.
@Dairyland Power #161	3/31	$507,087.75	12/31/18	5.988% Qtr.
@Dairyland Power #161	3/31	$766,045.52	12/31/18	5.988% Qtr.
@Dairyland Power #161	3/31	$2,263,929.38	12/31/18	5.988% Qtr.
@Dairyland Power #161	3/31	$5,091,095.29	12/31/19	6.005% Qtr.
@Dairyland Power #173	3/31	$90,651.87	12/31/19	6.005% Qtr.
*Farmers Telephone #399	3/31	$5,137,052.28	3/31/99	5.531% Qtr.
*Hoosier Energy Elec. #901	3/31	$21,143,922.36	6/30/98	5.176% Qtr.
*Hoosier Energy Elec. #901	3/31	$1,395,383.70	6/30/98	5.176% Qtr.
*Johnson County Elec. #428	3/31	$3,031,531.06	1/2/29	6.056% Qtr.
*Johnson County Elec. #428	3/31	$132,639.67	1/2/29	6.056% Qtr.
*Kansas Elec. Power #904	3/31	$581,919.69	3/31/99	5.530% Qtr.
*Kansas Elec. Power #904	3/31	$878,169.69	3/31/99	5.530% Qtr.
*Meade County Elec. #356	3/31	$468,281.25	12/31/25	6.049% Qtr.
*N. Pittsburgh Tele. #449	3/31	$3,771,000.00	9/30/98	5.385% Qtr.
*Northwest Iowa Power #907	3/31	$6,974,777.98	3/31/99	5.406% Qtr.
*Oglethorpe Power #445	3/31	$14,430,130.60	1/2/18	5.845% Qtr.
*Oglethorpe Power #445	3/31	$786,462.57	1/2/18	5.845% Qtr.
*Oglethorpe Power #445	3/31	$49,694,592.22	12/31/19	5.881% Qtr.
*Plains Elec. #918	3/31	$5,616,180.74	6/30/98	5.176% Qtr.
*Plains Elec. #918	3/31	$9,469,910.11	6/30/98	5.176% Qtr.
*Plains Elec. #918	3/31	$6,829,656.05	6/30/98	5.176% Qtr.

Qtr. is a Quarterly rate.
@ interest rate buydown
* maturity extension or interest rate reset

FEDERAL FINANCING BANK
MARCH 1998 ACTIVITY

BORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST RATE
GOVERNMENT - GUARANTEED LOANS				
RURAL UTILITIES SERVICE				
*Plains Elec. #918	3/31	$6,948,821.23	6/30/98	5.176% Qtr.
*Plains Elec. #918	3/31	$5,556,865.12	6/30/98	5.176% Qtr.
*Plains Elec. #918	3/31	$2,894,734.13	6/30/98	5.176% Qtr.
*Plains Elec. #918	3/31	$862,323.48	6/30/98	5.176% Qtr.
*Plains Elec. #918	3/31	$1,568,102.61	6/30/98	5.176% Qtr.
*Plains Elec. #918	3/31	$557,789.83	6/30/98	5.176% Qtr.
*San Miguel Electric #919	3/31	$9,441,430.37	6/30/98	5.176% Qtr.
*San Miguel Electric #919	3/31	$9,913,612.32	6/30/98	5.176% Qtr.
*Sho-Me Power #913	3/31	$405,862.08	1/2/18	5.814% Qtr.
*United Power Assoc. #911	3/31	$866,117.26	6/30/98	5.176% Qtr.
*United Power Assoc. #911	3/31	$10,393,406.22	6/30/98	5.176% Qtr.
+United Power Assoc. #911	3/31	$2,210,639.04	12/31/19	5.846% Qtr.
*United Power Assoc. #911	3/31	$3,360,466.23	6/30/98	5.176% Qtr.
*United Power Assoc. #911	3/31	$2,831,594.42	6/30/98	5.176% Qtr.
*United Power Assoc. #911	3/31	$3,361,497.11	6/30/98	5.176% Qtr.
*United Power Assoc. #911	3/31	$3,578,658.56	6/30/98	5.176% Qtr.
*United Power Assoc. #911	3/31	$3,966,538.73	6/30/98	5.176% Qtr.
*United Power Assoc. #911	3/31	$1,112,285.64	6/30/98	5.176% Qtr.
*United Power Assoc. #911	3/31	$846,517.34	6/30/98	5.176% Qtr.
+United Power Assoc. #911	3/31	$1,004,339.56	12/31/19	5.846% Qtr.
+United Power Assoc. #911	3/31	$122,659.26	12/31/19	5.846% Qtr.
*United Power Assoc. #911	3/31	$518,614.28	6/30/98	5.176% Qtr.
*United Power Assoc. #911	3/31	$1,062,151.87	6/30/98	5.176% Qtr.

Qtr. is a Quarterly rate.
* maturity extension or interest rate reset
+ 306C refinancing

FEDERAL FINANCING BANK
(in millions)

Program	March 31, 1998	February 28, 1998	Net Change 3/1/98-3/31/98	FY '98 Net Change 10/1/97-3/31/98
Agency Debt:				
Export-Import Bank	$ 541.9	$ 549.3	$ -7.5	$ -752.7
Resolution Trust Corporation	570.7	738.8	-168.1	-804.3
U.S. Postal Service	1,082.4	1,982.6	-900.2	-881.1
sub-total*	2,194.9	3,270.7	-1,075.8	-2,438.1
Agency Assets:				
FmHA-RDIF	3,675.0	3,675.0	0.0	0.0
FmHA-RHIF	12,380.0	13,030.0	-650.0	-1,150.0
DHHS-Health Maintenance Org.	4.4	4.4	0.0	0.0
DHHS-Medical Facilities	13.0	13.0	0.0	0.0
Rural Utilities Service-CBO	4,598.9	4,598.9	0.0	0.0
Small Business Administration	0.0	0.0	0.0	0.0
sub-total*	20,671.3	21,321.3	-650.0	-1,150.0
Government-Guaranteed Loans:				
DOD-Foreign Military Sales	2,938.0	2,955.7	-17.7	-110.2
DoEd-HBCU	1.2	1.2	0.0	0.6
DHUD-Community Dev. Block Grant	34.1	34.2	-0.1	-1.9
DHUD-Public Housing Notes	1,491.4	1,491.4	0.0	-70.0
General Services Administration +	2,454.6	2,448.8	5.7	34.9
DOI-Virgin Islands	17.8	17.8	0.0	-0.9
DON-Ship Lease Financing	1,224.9	1,224.9	0.0	-83.1
Rural Utilities Service	14,202.7	14,315.0	-112.3	-616.1
SBA-State/Local Development Cos.	252.6	255.7	-3.1	-22.3
DOT-Section 511	3.9	3.9	0.0	-0.1
sub-total*	22,621.2	22,748.7	-127.5	-869.2
grand-total*	$ 45,487.4	$ 47,340.7	$ -1,853.3	$ -4,457.3

*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

EMBARGOED UNTIL 9:00PM EDT
Remarks as Prepared for Delivery
May 21, 1998

SECRETARY ROBERT E. RUBIN
FLEET WEEK GALA

It is a pleasure to be here this evening with the men and women of our nation's armed forces, the Joint Chiefs of Staff and so many other distinguished guests. I am honored to accept this award from a group that is dedicated to preserving this famed aircraft carrier, which served our country so well for so long and is a proud symbol of our commitment to freedom. I am especially honored to be the first Treasury Secretary to receive this award. 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, has brought to the new foreign policy challenges of today a deep understanding that the end of the Cold War does not diminish the importance of U.S. leadership for our national security and that the rise of the global economy means that the economic well-being of the United States depends on strong U.S. engagement on the international stage.

My presence here symbolizes how the nation's economic and national security interests are intertwined, a reflection of the rapid evolution of the global economy and global financial markets and the increased interdependence of the world. As Secretary Cohen said recently, "Security policy, very basically, cannot be separated from economic policy." For example, while the United States has key economic interests in Asia, we also have major strategic and security interests in the region and they are inter-related. On the Korean peninsula alone, we have thirty-seven thousand troops who have spent 45 years keeping the peace. History has shown that economic distress and financial instability can threaten political stability and security, so when we worked to restore financial stability in the region over the last several months, we were working to protect American economic and national security interests.

The emergence of the global economy and global financial markets have greatly increased this inter-relationship between our economic and national security interests and have created critical challenges to the United States that can only be met by spreading the benefits of the global economy and bolstering support for forward looking international policies.

Behind the growing connection between economic and national security interests is the

RR-2471

rapid development of the global economy. Over the last twenty five years, vastly increased international flows of trade, capital, and information along with the development of new technologies, have all contributed to increased integration amongst the world's economies. Here in the United States, the percentage of our economy that accounts for trade has doubled in the last twenty-five years to 30 percent.

Perhaps the changes have been the greatest in developing countries. In 1996, about $250 billion in net 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 economic partners of the United States; for example, they now absorb more than 40 percent of our country's exports.

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.

To help our nation make the most of the opportunities in the global economy, President Clinton has pursued a coordinated international economic strategy with three basic components. First, is trade liberalization to create jobs and increase standards of living here at home. Second, is to promote growth in developing countries, especially in concert with the international financial institutions such as the World Bank and the International Monetary Fund. There is a relationship between financial stability and political stability and political pluralism and by helping these countries grow, we help foster the markets of tomorrow, promote political stability and protect our national security. Third, is to address financial instability when it occurs, again through the IMF, as in Mexico in 1995, and the current crisis in Asia, to protect and promote U.S. interests, and in the longer term, by developing an architecture of the international financial system that is as modern as the market.

Maintaining strong U.S. leadership on global issues is essential to our economic well-being and our national security and it follows on a proud tradition. U.S. leadership was critical to the fifty year movement toward freer trade begun following World War II. U.S. leadership was critical to the promotion of economic and political reform in developing economies over the same period. And more recently, U.S. leadership was critical in helping Mexico work its way out of financial crisis in 1995, just as it has been critical to the response to the Asian crisis over the last several months. Let me just note that in Asia, difficult times and many challenges lie ahead even in those countries where reform has taken hold, although in those countries where reform has taken hold there is a very good beginning to reestablishing financial stability. The key now is to sustain reform during the difficult period ahead. Our leadership during the Asian crisis, as in all such situations, is critically in our interest.

However, I am deeply concerned -- and I know the President shares this concern -- that public support for U.S. engagement in the world 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 President lacks fast track trading authority to negotiate new trade agreements, and our trading partners are now moving forward with new agreements without us; we have failed to pay our arrears to the United Nations -- losing influence when we want to reform it; and we have failed so far to approve funding for the International Monetary Fund, at a time when a sufficiently funded IMF that can deal with potential crises is critical to our economic and national security interests.

This diminishing support reflects, in part, an erosion of the traditional bi-partisan base of support for international economic engagement in recent years, and, at the same time, a re-ignition of one historical strain in American thought, a rejection of the outside world. This has occurred for at least two reasons: anxiety brought by the rapidity of change in this era of the global economy and dramatic technological developments; and the end of the Cold War, wherein the foreign policy consensus lost its centerpiece -- the effort to contain Communist expansionism. With the disappearance of that powerful purpose, national security issues have become more complicated, and, questions concerning the importance of U.S. leadership have grown.

Consequently, a great task facing this country today is to rebuild public support for forward looking international policies. Our leadership in the world depends on it. Our economic well-being depends on it. Our national security depends on it.

Doing so requires meeting two basic challenges.

First is 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 that 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. Moreover, the rapid changes of the global economy inevitably create not only great benefits for most, but dislocations for some.

The answer is not a futile effort to try to halt the incredible tide of globalization. Instead, the answer is to continue to strengthen a domestic counterpart to forward looking international economic policy, the promotion of the ability of all of our people to compete in the global economy, through education and training, special programs for those trapped in poverty as in our inner cities and distressed rural areas, health care, and the like.

The second critical challenge we face is to vastly improve the efforts of 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 and national security of the American people.

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 in the General Assembly at the end of this year; we will fail to support the IMF, and be more vulnerable to economic crises; and we will fail to pass fast track and 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.

The USS Intrepid is a testament to American leadership in the world. The need for carriers like this and for a strong defense is as great as ever, but our national security interests are evolving. In an interdependent world, leadership now requires an engagement in the issues of the global economy as well as traditional national security issues. But leadership must be grounded in public support. Making the most of the opportunities of the global economy, and minimizing the risks -- especially the risk that we will succumb to the temptation to withdraw from the world -- requires us all to work together to promote public support for our engagement in the world. Our success in meeting that challenge is critical to our country's economic well-being for the years and decades ahead. Thank you very much.

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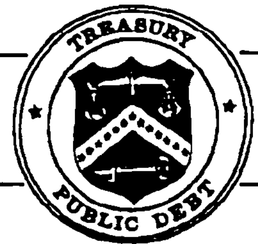
PUBLIC DEBT NEWS



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
May 21, 1998

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 52-WEEK BILLS

Term:	364-Day Bill
Issue Date:	May 28, 1998
Maturity Date:	May 27, 1999
CUSIP Number:	912795BX8

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate 1/	Price
Low	5.145%	5.429%	94.798
High	5.150%	5.434%	94.793
Average	5.150%	5.434%	94.793

Tenders at the high discount rate were allotted 100%.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 39,370,700	$ 7,742,700
Noncompetitive	1,016,404	1,016,404
PUBLIC SUBTOTAL	40,387,104	8,759,104
Federal Reserve	5,490,000	5,490,000
Foreign Official Inst.		
Refunded Maturing	1,266,000	1,266,000
Additional Amounts	0	0
TOTAL	$ 47,143,104	$ 15,515,104

1/ Equivalent coupon-issue yield.

RR-2472

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

FEDERAL FINANCING BANK May 22, 1998

Charles D. Haworth, Secretary, Federal Financing Bank (FFB), announced the following activity for the month of April 1998.

FFB holdings of obligations issued, sold or guaranteed by other Federal agencies totaled $44.9 billion on April 30, 1998, posting a decrease of $594.8 million from the level on March 31, 1998. This net change was the result of a decrease in holdings of agency debt of $181.9 million, in holdings of agency assets of $425.0 million, and an increase in holdings of agency guaranteed loans of $12.2 million. FFB made 36 disbursements during the month of April and repriced 2 RUS-guaranteed loans. FFB also received 17 prepayments in April.

Attached to this release are tables presenting FFB April loan activity and FFB holdings as of April 30, 1998.

RR-2473

FEDERAL FINANCING BANK
APRIL 1998 ACTIVITY

BORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST RATE
AGENCY DEBT				
RESOLUTION TRUST CORPORATION				
*Note 29 /Advance #1	4/1	$570,653,573.12	7/1/98	5.280% S/A
U.S. POSTAL SERVICE				
U.S. Postal Service	4/3	$300,000,000.00	4/6/98	5.227% S/A
U.S. Postal Service	4/3	$50,000,000.00	4/6/98	5.227% S/A
U.S. Postal Service	4/6	$35,000,000.00	4/7/98	5.205% S/A
U.S. Postal Service	4/6	$600,000,000.00	4/7/98	5.205% S/A
U.S. Postal Service	4/7	$6,366,000.00	4/8/98	5.322% S/A
U.S. Postal Service	4/7	$290,000,000.00	4/8/98	5.228% S/A
U.S. Postal Service	4/7	$50,000,000.00	4/8/98	5.228% S/A
U.S. Postal Service	4/7	$25,000,000.00	4/8/98	5.228% S/A
U.S. Postal Service	4/8	$19,056,000.00	4/9/98	5.312% S/A
U.S. Postal Service	4/8	$175,000,000.00	4/9/98	5.197% S/A
U.S. Postal Service	4/9	$35,350,000.00	4/10/98	5.319% S/A
U.S. Postal Service	4/17	$8,700,000.00	4/20/98	5.298% S/A
U.S. Postal Service	4/20	$61,600,000.00	4/21/98	5.332% S/A
U.S. Postal Service	4/20	$275,000,000.00	4/21/98	5.173% S/A
U.S. Postal Service	4/20	$50,000,000.00	4/21/98	5.173% S/A
U.S. Postal Service	4/21	$54,100,000.00	4/22/98	5.322% S/A
U.S. Postal Service	4/21	$100,000,000.00	4/22/98	5.207% S/A
U.S. Postal Service	4/21	$50,000,000.00	4/22/98	5.207% S/A
U.S. Postal Service	4/22	$37,500,000.00	4/23/98	5.343% S/A
U.S. Postal Service	4/22	$30,000,000.00	4/23/98	5.197% S/A
GOVERNMENT - GUARANTEED LOANS				
GENERAL SERVICES ADMINISTRATION				
Memphis IRS Service Cent.	4/2	$155,152.45	1/2/25	6.009% S/A
Foley Services Contract	4/6	$575,645.21	7/31/25	5.870% S/A
Foley Services Contract	4/6	$1,125,337.74	7/31/25	5.870% S/A
Foley Services Contract	4/6	$340,998.70	7/31/25	5.870% S/A
Chamblee Office Building	4/16	$229,816.82	4/1/99	5.498% S/A
Chamblee Office Building	4/16	$3,524,141.14	4/1/99	5.498% S/A
Memphis IRS Service Cent.	4/16	$3,374.14	1/2/25	5.987% S/A
Foley Services Contract	4/17	$168,242.04	7/31/25	6.012% S/A
GSA/PADC				
ICTC Building	4/22	$9,151,389.13	11/2/26	6.062% S/A
ICTC Building	4/23	$724,503.00	11/2/26	6.066% S/A

S/A is a Semi-annual rate.
*maturity extension or interest rate reset

FEDERAL FINANCING BANK
APRIL 1998 ACTIVITY

BORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST RATE
GOVERNMENT - GUARANTEED LOANS				
DEPARTMENT OF EDUCATION				
Bethune Cookman	4/7	$621,593.28	9/1/27	5.927% S/A
Bethune Cookman	4/8	$32,113.26	9/1/27	5.940% S/A
RURAL UTILITIES SERVICE				
@Cornbelt Power #094	4/9	$39,614.05	1/2/18	5.845% Qtr.
@Cornbelt Power #094	4/9	$91,909.37	1/2/18	5.845% Qtr.
Canoochee Elec. #461	4/15	$598,000.00	12/31/31	5.982% Qtr.
E. Nebraska Tele. #398	4/24	$248,000.00	1/3/17	5.935% Qtr.
Brazos Electric #437	4/30	$1,476,000.00	12/31/98	5.476% Qtr.
Warren Elec. Coop. #477	4/30	$2,100,000.00	3/31/28	6.143% Qtr.

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

FEDERAL FINANCING BANK
(in millions)

Program	April 30, 1998	March 31, 1998	Net Change 4/1/98-4/30/98	FY '98 Net Change 10/1/97-4/30/98
Agency Debt:				
Export-Import Bank	$ 541.9	$ 541.9	$ 0.0	$ -752.7
Resolution Trust Corporation	471.1	570.7	-99.5	-903.9
U.S. Postal Service	1,000.0	1,082.4	-82.4	-963.5
sub-total*	2,013.0	2,194.9	-181.9	-2,620.1
Agency Assets:				
FmHA-RDIF	3,675.0	3,675.0	0.0	0.0
FmHA-RHIF	11,955.0	12,380.0	-425.0	-1,575.0
DHHS-Health Maintenance Org.	4.4	4.4	0.0	0.0
DHHS-Medical Facilities	13.0	13.0	0.0	0.0
Rural Utilities Service-CBO	4,598.9	4,598.9	0.0	0.0
Small Business Administration	0.0	0.0	0.0	0.0
sub-total*	20,246.3	20,671.3	-425.0	-1,575.0
Government-Guaranteed Loans:				
DOD-Foreign Military Sales	2,935.4	2,938.0	-2.7	-112.9
DoEd-HBCU	1.9	1.2	0.7	1.2
DHUD-Community Dev. Block Grant	34.1	34.1	0.0	-1.9
DHUD-Public Housing Notes	1,491.4	1,491.4	0.0	-70.0
General Services Administration +	2,468.4	2,454.6	13.9	48.8
DOI-Virgin Islands	17.8	17.8	0.0	-0.9
DON-Ship Lease Financing	1,224.9	1,224.9	0.0	-83.1
Rural Utilities Service	14,207.1	14,202.7	4.4	-611.7
SBA-State/Local Development Cos.	248.5	252.6	-4.1	-26.4
DOT-Section 511	3.9	3.9	0.0	-0.1
sub-total*	22,633.4	22,621.2	12.2	-857.0
	=========	=========	=========	=========
grand-total*	$ 44,892.7	$ 45,487.5	$ -594.8	$ -5,052.1

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

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
May 22, 1998

Contact: Dan Israel
(202) 622-2960

STATEMENT BY ASSISTANT SECRETARY FOR TAX POLICY
DONALD C. LUBICK ON LIQUIDATING RIC AND REIT TRANSACTIONS

We applaud the efforts of Senators Roth and Moynihan and Representative Archer to eliminate this abusive transaction that threatens the corporate tax base. Their bill introduced today shuts down a structure that clearly was not contemplated by the drafters of the regulated investment company (RIC) or real estate investment trust (REIT) rules. The proposal, which eliminates liquidating RIC and REIT transactions, is the result of collaboration between the Treasury Department and the Congressional tax-writing staffs over the last several weeks.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
May 26, 1998

Contact: Beth Weaver
(202) 622-2960

TREASURY NAMES FRONTS FOR THE COLOMBIAN DRUG CARTELS

The Treasury Department announced today it had added the names of fronts for two of Colombia's leading drug traffickers to the department's list of Specially Designated Narcotics Traffickers (SDNT), a list designed to apply ecomonic sanctions against the Colombian cartels. This represents the first expansion of Treasury's SDNT list to reach beyond the Cali cartel.

The names of one of the leaders of Colombia's North Coast cartel, Julio Cesar Nasser David, and 14 businesses and 4 associated individuals that Treasury has determined are acting as fronts for the North Coast cartel's Julio Cesar Nasser David organization were added to the SDNT list. The Treasury Department also named 7 businesses and one individual that it has determined are acting as fronts for the Cali cartel.

"Today's action against the fronts of the Colombian narcotraffickers sends a clear message that corporate sleight-of-hand will not enable the cartels' businesses to escape U.S. sanctions," said Treasury Under Secretary for Enforcement Raymond W. Kelly

Treasury's Office of Foreign Assets Control has now begun identifying companies owned or controlled by other Colombian drug cartels, in addition to the Cali cartel, in order to further expose, isolate, and incapacitate the Colombian drug cartels and their agents by prohibiting Americans from doing business with SDNTs and freezing their assets found within U.S. jurisdiction.

This action is part of the ongoing interagency effort to carry out President's Clinton's Executive Order 12978, signed on October 21, 1995, which applies economic sanctions against the Colombian drug cartels. The 27 names released today have been added to the previous SDNT list, bringing to a total of 451 the number of businesses and individuals with whom financial and business dealings are prohibited and whose assets are blocked under the 1995 Executive Order. The list of 451 SDNTs includes the four Cali cartel drug kingpins named in the Executive Order, the significant North Coast narcotics trafficker, Julio Cesar Nasser David, and 446 other SDNTs that have been determined to be owned or controlled by, or to act for or on behalf of persons designated in or pursuant to the Order

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The 21 newly-named companies include real estate firms, several hotel and restaurant service companies, construction companies, and a clinic which have been determined to be owned or controlled by persons designated in or pursuant to the Order.

Today's action by Treasury's Office of Foreign Assets Control (OFAC) was taken in coordination with the Justice and State Departments. The list of businesses and individuals named by Treasury today as SDNTs is attached and available electronically from OFAC. It will be published in the Federal Register later this week.

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TREASURY NEWS

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FOR IMMEDIATE RELEASE
May 26, 1998

Robert E. Rubin
Remarks for Opening Plenary
China - U.S. Joint Economic Committee - Eleventh Session

Mr. Minister, I would like to welcome you and your delegation to Washington for this eleventh meeting of the JEC. These meetings are important to enable us to better understand each others' views on a broad range of issues that reflect our mutual well-being. These give us a framework we can use to deal with issues as they come up -- like the Asian financial crisis. Meetings between us, the finance ministers of two of the world's largest economies, have become -- and should be -- regular events.

The months since the last meeting have been difficult. We came to that meeting from the IMF/World Bank Annual Meetings, where the Asian financial crisis was the major topic of discussion. But none of us could have predicted then how bad that crisis would become. The crisis underscores the importance of international cooperation and frequent consultation on economic issues. Both the United States and China have played important roles in helping to resolve the crisis, through provision of direct assistance, through cooperation in the Manila Framework and the Special Meeting, and through their participation in international financial institutions. China, by maintaining its exchange rate policy, has been an important island of stability in a turbulent region

The crisis also brings into focus the importance of some of the issues we are here to discuss today, for there are many lessons for us to apply to our own economies. The Chinese and U.S. economies have remained strong. But neither of us can take this success for granted. Rather, we should learn from the experience of the crisis countries, which have demonstrated to us the importance of sound macroeconomic policies, strong financial sectors, and transparency. We in the U.S. have worked hard to correct the balance of macroeconomic policies -- to the point where we expect a budget surplus in 1998, after a long string of deficits. We have also worked hard to strengthen our financial system, after learning a costly lesson in the savings and loan crisis of the 1980s.

China has made excellent progress in improving the management of its macroeconomic instruments, having ended the stop-and-go economic cycles of the early reform period and

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brought price stability along with a growth rate that is the envy of the world, despite its recent moderate decline. As a result of that growth, China has lifted tens of millions of people out of poverty. It is important that China build on that success to create a strong basis for sustainable growth in the years to come, rather than focus on growth in any particular year, particularly this one, in which the external environment is not so favorable.

To build this basis, your leaders have made a strong commitment to addressing some of China's structural challenges, in areas as diverse as banking, state-owned enterprises, and government restructuring. We look forward to hearing from you today about these initiatives.

One area in which we are particularly interested is reform of the financial sector. On the positive side, the financial sector plays a crucial role in mobilizing savings and allocating them efficiently. On the darker side, we have recently seen graphic demonstrations of the havoc that a weak and inadequately-supervised banking system can wreak. We have watched with interest the steps you have taken so far, but we want to understand them better. We have learned from our own S&L crisis the difficulty and expense of restructuring weak financial institutions, and of putting them on a sound basis for the future. We are interested not only in learning about the steps you plan to take, but also in exploring how we can work with you in addressing this problem, perhaps through sharing our expertise.

Closely tied to the issue of financial market reform is the larger issue of state-owned enterprise reform. Last year then-vice premier Zhu indicated that within three years the problems of state-owned enterprises would be addressed. This is an enormously challenging goal, and we are interested to learn about progress made so far, and about plans for the future. SOE reform necessarily involves redistribution of some of the social functions -- like pensions, housing, and healthcare -- that employers have historically provided. While we have never had such sweeping employer provision in the U.S., these are issues with which we, too, have wrestled. We recently overhauled our social welfare system, and are currently grappling with the possibility -- or necessity -- of reforming our state pension (social security) system.

The introduction of market forces over the last two decades, and the great strides you have already taken in restructuring and opening your economy, have made China one of the world's great trading nations, and one of the United States' most important trading partners. It has also created tensions, particularly relating to the size and growth of our bilateral trade deficit. Our presence here reflects the importance we attribute to China as an economic partner -- and the respect which we have for its economic accomplishments. This importance is one factor that led President Clinton to invite President Jiang to visit the U.S. last year, and that will bring President Clinton to Beijing next month.

There is no doubt that the current international climate is a difficult one. We want to discuss with you the outlooks for our economies in the areas of trade, the current account, investment, reserves, and the exchange rate.

China's leaders have reaffirmed their exchange rate policy, which we feel is appropriate in

light of regional developments. While there is speculation in the press and the financial markets suggesting that China might benefit from a devaluation, we frankly do not see the basis for their arguments. We agree with your leaders' analysis that a devaluation would not be in China's best interests, that it might threaten trade and investment flows and could invite a return of inflation as well, of course, as having a major impact on the other currencies in the region, including that of Hong Kong.

We should also discuss ways in which we can move our relationship, and China's integration into the world economy, forward, particularly in light of President Clinton's upcoming visit. Economic issues will play a major role in the Summit between our Presidents, and it our job to contribute to significant achievements in this area. The core of this discussion must logically be China's WTO accession. When I was in China last year, I stated that China belongs in the WTO and that Chinese accession to the WTO is strongly in the United States' national interest, as well as that of China. This is still the case. Since last year's state visit, there has been encouraging progress on the issue, although much remains to be done. I hope that there will soon be significant additional progress, which we will be able to report to our presidents in China.

In this respect, I would particularly like to mention the issue of financial services, whose importance I alluded to already and which are the direct responsibility of the Treasury Department. We feel that international financial firms -- in banking, securities, and insurance -- have a great deal to offer the Chinese economy, both to its businesses and to modernizing its own financial sector. We hope that as part of the accession we will be able to craft an agreement that will allow these firms to supply the needs of Chinese customers, and at the same time provide safeguards to meet your concerns.

Finally, I would like to touch upon international law enforcement issues. As international integration has accelerated, so, unfortunately, has international crime. Such crime is a drag on all of our economies, and it is essential that we work together to fight it. I hope that we can agree that both sides should observe the terms of the Memorandum of Understanding and Statement of Cooperation on prison labor and that we will finally be able to complete the negotiations on a Customs Mutual Assistance Agreement. Other areas in which we can strengthen cooperation include combating international organized crime, narcotics trafficking, counterfeiting and money laundering through the JEC and other fora, including the recently-formed Joint Liaison Group for Law Enforcement.

In our discussions today, and in the future, we will no doubt discuss areas where we disagree, and perhaps even uncover new areas of disagreement. It would be disingenuous for us to gloss over our differences, or to pretend that they could all be eliminated. In any relationship of this importance and magnitude, there will inevitably be areas of disagreement. What is important is that the issues be discussed openly and fully, and as much progress as possible be made in resolving differences. It is important, for example, that we exchange our respective perspectives on what is an underlying tenet of American society -- respect for human rights -- and on our long-standing tradition of advocating human rights around the globe.

At this point I'd like to surrender the podium, so that Minister Xiang can make his opening statement. Before I do this, however, I'd like to introduce the key members of the U.S. delegation who will be participating in the discussions today. Thank you very much. I look forward to a fruitful and important meeting.

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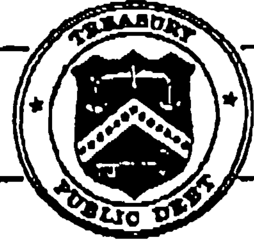
PUBLIC DEBT NEWS



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TREASURY SECURITY AUCTION RESULTS
BUREAU OF THE PUBLIC DEBT - WASHINGTON DC

FOR IMMEDIATE RELEASE
May 26, 1998

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Term:	91-Day Bill
Issue Date:	May 28, 1998
Maturity Date:	August 27, 1998
CUSIP Number:	912795AG6

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate 1/	Price
Low 2/	5.010%	5.143%	98.734
High	5.025%	5.159%	98.730
Average	5.020%	5.155%	98.731

Tenders at the high discount rate were allotted 7%.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 29,293,801	$ 4,137,421
Noncompetitive	1,331,985	1,331,985
PUBLIC SUBTOTAL	30,625,786	5,469,406
Federal Reserve	3,993,180	3,993,180
Foreign Official Inst.		
Refunded Maturing	283,000	283,000
Additional Amounts	0	0
TOTAL	$ 34,901,966	$ 9,745,586

1/ Equivalent coupon-issue yield.
2/ $10,258,000 was accepted at rates below the competitive range.

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PUBLIC DEBT NEWS

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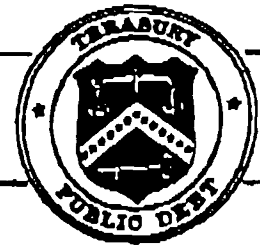

TREASURY SECURITY AUCTION RESULTS
BUREAU OF THE PUBLIC DEBT - WASHINGTON DC

FOR IMMEDIATE RELEASE
May 26, 1998

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Term:	183-Day Bill
Issue Date:	May 28, 1998
Maturity Date:	November 27, 1998
CUSIP Number:	912795AS0

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate 1/	Price
Low	5.160%	5.373%	97.377
High	5.165%	5.379%	97.374
Average	5.165%	5.379%	97.374

Tenders at the high discount rate were allotted 38%.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 32,507,530	$ 3,817,593
Noncompetitive	1,081,066	1,081,066
PUBLIC SUBTOTAL	33,588,596	4,898,659
Federal Reserve	3,980,000	3,980,000
Foreign Official Inst.		
Refunded Maturing	2,416,600	2,416,600
Additional Amounts	0	0
TOTAL	$ 39,985,196	$ 11,295,259

1/ Equivalent coupon-issue yield.

RR-2478

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

EMBARGOED UNTIL 2:30 P.M.
May 26, 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 June 4, 1998. This offering will result in a paydown for the Treasury of about $2,225 million, as the maturing publicly held weekly bills are outstanding in the amount of $15,231 million.

In addition to the public holdings, Federal Reserve Banks for their own accounts hold $7,375 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 $3,012 million as agents for foreign and international monetary authorities, which may be refunded within the offering amount at the weighted average discount rate of accepted competitive tenders. Additional amounts may be issued for such accounts if the aggregate amount of new bids exceeds the aggregate amount of maturing bills.

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

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

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Attachment

RR-2479

HIGHLIGHTS OF TREASURY OFFERINGS OF WEEKLY BILLS
TO BE ISSUED June 4, 1998

May 26, 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 AH 4	912795 AT 8
Auction date	June 1, 1998	June 1, 1998
Issue date	June 4, 1998	June 4, 1998
Maturity date	September 3, 1998	December 3, 1998
Original issue date	March 5, 1998	June 4, 1998
Currently outstanding	$10,843 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

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JOINT STATEMENT
11TH SESSION OF THE CHINA-U.S. JOINT ECONOMIC COMMITTEE
WASHINGTON, D.C.
May 26, 1998

At the invitation of Secretary of the Treasury Robert E. Rubin, Finance Minister Xiang Huaicheng visited the United States and co-chaired the 11th session of the China-United States Joint Economic Committee (JEC). During the meeting, senior officials from both sides held extensive discussions on a broad range of economic issues. The two ministers noted that mutual understanding and the bilateral relationship in the economic, financial, and law enforcement fields between the two countries had been enhanced through dialogue on a regular basis in the JEC and other fora. They stressed their common desire to continue deepening cooperative relations between the two countries, which will be advanced by the upcoming state visit of President Clinton to China.

The 11th session of the JEC addressed both domestic and international issues.

- On **domestic issues**, both sides reviewed the policies that have contributed to their strong growth and moderate inflation, and discussed the challenges they face in sustaining this performance. The United States pointed to prudent fiscal and monetary policies on its side, and particularly to the expected budget surplus in fiscal year 1998. China emphasized that it will continue a prudent fiscal and monetary policy stance, while sustaining a growth rate of 8 percent and deepening economic reform. It also touched on the recent slowdown of GDP growth, and the steps being taken to stimulate the economy. The two sides discussed the complex issues of social welfare policies and their relationship to the restructuring of state-owned enterprises.

  The two sides also discussed financial issues, with the Chinese side noting the steps they were taking to strengthen their banking sector and financial regulatory systems. The two sides agreed on the importance of competition in the financial sector, and on the sector's key role in promoting economic growth through lending on commercial terms. They also discussed how they might increase bilateral cooperation in furthering these goals, including the possibility of increased technical assistance by the U.S. in areas that support China's reform objectives.

- The discussion of **international issues** was dominated by the Asian financial crisis. The two sides discussed the external positions of both countries, including trade balances, investment

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flows, reserves, debt, and exchange rate policy in the light of the crisis and of domestic developments in each economy. The Chinese side reiterated the policy commitment to maintaining the stability of the exchange rate of the renminbi as a responsible member of the international community. Both sides agreed that bilateral and multilateral cooperation had been important in dealing with the Asia crisis, and expressed the desire that such cooperation would continue.

They also discussed the lessons to be drawn from the crisis, including the importance of sound macroeconomic fundamentals, of transparency, and of strong financial systems. The two sides discussed China's accession to the WTO, including the role of financial services, and how progress can be accelerated consistent with WTO rules and obligations. Both sides agreed on their determination to make significant progress on the financial services negotiations before the Presidential visit.

The two sides also discussed issues of international law enforcement, including the enforcement of their laws that prohibit exports and imports of goods made by prison labor. They discussed what they could do to strengthen cooperation in this area and observe existing agreements so as to enforce their laws. They expressed the intention of successfully completing the negotiations on a Customs Mutual Assistance Agreement in the coming months. They also reiterated their intention to strengthen bilateral cooperation in combating international organized crime, narcotics trafficking, counterfeiting and money laundering through the JEC and other fora, including the recently formed Joint Liaison Group for Law Enforcement, which was envisioned in the Joint Communique issued last October in Washington, D.C. at the end of the Summit between Presidents Jiang and Clinton.

Minister Xiang particularly drew attention to the following developments since the last JEC meeting:

- China had reaffirmed its commitment to further reforms to move toward a market-based economy. It had put forward a number of reform measures to restructure state owned enterprises, the financial sector, including the role of the central bank, and the government service. To support these broad objectives, China was also pursuing reforms in the areas of housing, medical care, investment finance, taxation, and grain distribution.

- Despite the Asian crisis, China had managed to keep a favorable external position; its exports, the trade surplus, and investment flows all continued to rise through the first quarter of 1998.

Secretary Rubin also remarked on a number of specific issues:

- He welcomed China's active participation in the international financial system, particularly in the context of the Asia crisis. He took particular note of China's offers of support to countries in difficulty, and of its active participation in the Manila Framework and the Special Meeting of Finance Ministers and Central Bank Governors, held in Washington in April.

- He reiterated the hope that relations between the U.S. Treasury and the Chinese Ministry of Finance would continue to develop, and he noted that there had been a significant expansion of contacts between officials of the two organizations. He took note of the technical cooperation that Treasury and other U.S. agencies had undertaken with Chinese agencies, and expressed the hope that such cooperation could be expanded and increased. He took note of the technical and law enforcement cooperation that Treasury and its bureaus as well as other U.S. agencies had undertaken with Chinese agencies, and expressed the hope that such cooperation could be expanded and increased.

Both Secretary Rubin and Minister Xiang recalled the successful visit by President Jiang to the United States and looked forward to a successful visit by President Clinton to China, agreeing that these exchanges of visits further promote the bilateral relationship between the countries. They both agreed that a team from the Treasury Department would visit China to discuss the possibilities for increased cooperation. They also agreed that the next meeting of the JEC would take place in Beijing in 1999.

The Chinese delegation to the JEC consisted of representatives of the Ministry of Finance, the People's Bank of China, and the Chinese Embassy in Washington. The U.S. delegation included representatives from the Department of the Treasury, the Federal Reserve Board, the Department of State, the Office of the U.S. Trade Representative, the Council of Economic Advisors, and the U.S. Embassy in Beijing.

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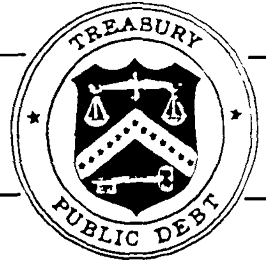

TREASURY SECURITY AUCTION RESULTS
BUREAU OF THE PUBLIC DEBT WASHINGTON DC

FOR IMMEDIATE RELEASE
May 27, 1998

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 2-YEAR NOTES

Interest Rate: 5 1/2%
Series: AD-2000
CUSIP No: 9128274G4
STRIPS Minimum: $400,000

Issue Date: June 01, 1998
Dated Date: May 31, 1998
Maturity Date: May 31, 2000

High Yield: 5.530% Price: 99.944

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 49%.

Accrued interest of $ 0.15027 per $1,000 must be paid for the period from May 31, 1998 to June 01, 1998.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 29,890,640	$ 11,743,455
Noncompetitive	1,261,225	1,261,225
PUBLIC SUBTOTAL	31,151,865	13,004,680
Federal Reserve	1,321,000	1,321,000
Foreign Official Inst.	2,200,000	2,200,000
TOTAL	$ 34,672,865	$ 16,525,680

Median yield 5.519%: 50% of the amount of accepted competitive tenders was tendered at or below that rate.

Low yield 5.460%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

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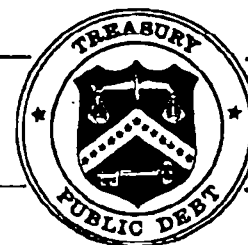
PUBLIC DEBT NEWS



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TREASURY SECURITY AUCTION RESULTS
BUREAU OF THE PUBLIC DEBT - WASHINGTON DC

FOR IMMEDIATE RELEASE
May 28, 1998

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 5-YEAR NOTES

Interest Rate:	5 1/2%	Issue Date:	June 01, 1998
Series:	G-2003	Dated Date:	May 31, 1998
CUSIP No:	9128274H2	Maturity Date:	May 31, 2003
STRIPS Minimum:	$400,000		

High Yield: 5.575% Price: 99.676

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 79%.

Accrued interest of $ 0.15027 per $1,000 must be paid for the period from May 31, 1998 to June 01, 1998.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 28,830,535	$ 10,689,380
Noncompetitive	310,836	310,836
PUBLIC SUBTOTAL	29,141,371	11,000,216
Federal Reserve	1,115,000	1,115,000
Foreign Official Inst.	1,000,000	1,000,000
TOTAL	$ 31,256,371	$ 13,115,216

Median yield 5.562%: 50% of the amount of accepted competitive tenders was tendered at or below that rate.

Low yield 5.500%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED UNTIL 2:30 P.M.
May 28, 1998

CONTACT: Office of Financing
202/219-3350

TREASURY TO AUCTION CASH MANAGEMENT BILLS

The Treasury will auction approximately $15,000 million of 12-day Treasury cash management bills to be issued June 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.

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Attachment

RR-2483

HIGHLIGHTS OF TREASURY OFFERING
OF 12-DAY CASH MANAGEMENT BILL

May 28, 1998

<u>Offering Amount</u> .... $15,000 million

<u>Description of Offering</u>:
Term and type of security .... 12-day Cash Management Bill
CUSIP number .... 912795 EK 3
Auction date .... June 2, 1998
Issue date .... June 3, 1998
Maturity date .... June 15, 1998
Original issue date .... June 3, 1998
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

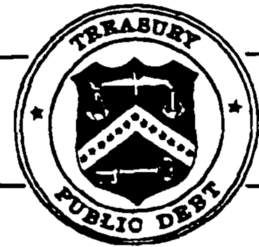
<u>Maximum Award</u> .... 35% of public offering

<u>Receipt of Tenders</u>:
Noncompetitive tenders........Prior to 12:00 noon Eastern 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 b·· charge to a funds account at a Federal ·serve 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
June 01, 1998

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Term:	91-Day Bill
Issue Date:	June 04, 1998
Maturity Date:	September 03, 1998
CUSIP Number:	912795AH4

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate 1/	Price
Low	4.930%	5.061%	98.754
High	4.950%	5.081%	98.749
Average	4.945%	5.077%	98.750

Tenders at the high discount rate were allotted 17%.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 31,261,640	$ 4,031,626
Noncompetitive	1,306,870	1,306,870
PUBLIC SUBTOTAL	32,568,510	5,338,496
Foreign Official Refunded	460,000	460,000
SUBTOTAL	33,028,510	5,798,496
Federal Reserve	3,479,955	3,479,955
Foreign Official Add-On	0	0
TOTAL	$ 36,508,465	$ 9,278,451

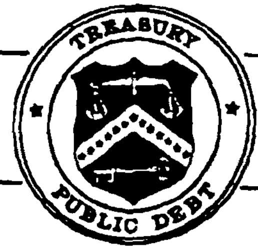
Bid-to-Cover Ratio = 32,568,510 / 5,338,496 = 6.10

1/ Equivalent coupon-issue yield.

RR-2484

PUBLIC DEBT NEWS

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



TREASURY SECURITY AUCTION RESULTS
BUREAU OF THE PUBLIC DEBT - WASHINGTON DC

FOR IMMEDIATE RELEASE
June 01, 1998

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Term:	182-Day Bill
Issue Date:	June 04, 1998
Maturity Date:	December 03, 1998
CUSIP Number:	912795AT8

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate 1/	Price
Low	5.100%	5.307%	97.422
High	5.115%	5.324%	97.414
Average	5.110%	5.318%	97.417

Tenders at the high discount rate were allotted 16%.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

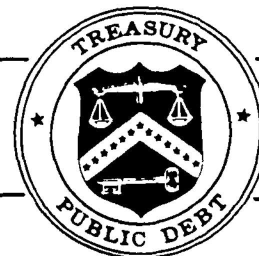
Tender Type	Tendered	Accepted
Competitive	$ 31,131,796	$ 3,935,083
Noncompetitive	1,169,452	1,169,452
PUBLIC SUBTOTAL	32,301,248	5,104,535
Foreign Official Refunded	2,163,600	2,163,600
SUBTOTAL	34,464,848	7,268,135
Federal Reserve	3,895,000	3,895,000
Foreign Official Add-On	0	0
TOTAL	$ 38,359,848	$ 11,163,135

Bid-to-Cover Ratio = 32,301,248 / 5,104,535 = 6.33

1/ Equivalent coupon-issue yield.

RR-2485

PUBLIC DEBT NEWS



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

Contact: Peter Hollenbach
(202) 219-3302

FOR IMMEDIATE RELEASE
June 2, 1998

MISSISSIPPI, MARYLAND & TENNESSEE STUDENTS WIN NATIONAL 1998 SAVINGS BONDS POSTER CONTEST

Will Receive $8,000 in U.S. Savings Bonds

Treasurer of the United States Mary Ellen Withrow will present the three national winners in the 7th Annual Savings Bonds Poster Contest, with awards during a ceremony at the Capital Children's Museum, 800 Third St., NE, Washington, D.C., on Thursday, June 4, 1998 at 10:00 a.m.

The three winning posters are the work of a fourth-grader from Mississippi, and two sixth-graders from Maryland and Tennessee. Their posters, and those of the other 48 first place winners, will be displayed in more than 70 airports around the country this Fall. But first the posters will be exhibited in Washington D.C., from June 4-12 at the Capital Children's Museum and then at the Bureau of Engraving and Printing on 14th Street, SW, until the end of August.

The first place winner, Beth Alexander, a fourth grader from Alexander Academy Home School, Little Rock, Mississippi, will receive a $5,000 U.S. Savings Bond and her poster will be used to promote the sale of bonds nationwide in 1999. When asked what she is going to do with her award, Beth said, "I plan on holding on to my savings bonds to help pay for college." Along with Beth's winning poster to promote savings bonds in the 1999 campaign, will be the slogan: "Take Stock in America with U. S. Savings Bonds."

The second and third place winners, Jessica Gonder, a sixth-grader at E. Russell Hicks Middle School, Hagerstown, Maryland, and Sterling Boone Gray, a sixth-grader at Porter Elementary School, Maryville, Tennessee, will receive $2,000 and $1,000 in savings bonds, respectively.

The poster contest began in 1992 as a fun way for students to learn the value of saving. "The poster contest provides a creative way for kids to learn about savings and U.S. savings bonds, as well as a way to possibly win valuable savings bonds to invest in their future", said Van Zeck, Commissioner of the Public Debt. The Bureau of the Public Debt manages the savings bond program.

Sponsor of this year's contest is Kenneth Derr, Chairman of the Board and CEO of Chevron Corporation who chaired the 1997 U.S. Savings Bond Volunteer Committee. The trip to Washington, D.C., for this year's winners is also being made possible by the following sponsors who have donated their services: the Mayflower Hotel, Gray Line Tours of Washington, Planet Hollywood, and the Hard Rock Cafe.

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State winners were selected earlier this year. First place entries from each state and the District of Columbia then were submitted to a panel of judges for selection of the national winners.

Savings bonds have many advantages for investors. Bonds can be purchased through financial institutions for a minimum investment of $25 for a $50 bond. They are also available through payroll savings plans in many private companies and other organizations. Savings bonds are safe, backed by the U.S. government and can be replaced if lost, stolen or destroyed. Series EE bonds are exempt from state and local income taxes and the federal income tax liability on earnings can be deferred until the bonds are redeemed or reach final maturity. There are special tax benefits available when bonds are used for education. Investors who qualify can exclude all or part of the interest earned in Series EE bonds from income when the bonds are redeemed to pay for post-secondary education.

Series EE savings bonds purchased on or after May 1, 1997, earn interest based on market yields for 5-year Treasury securities right from the start. Now, Series EE bonds increase in value every month. The rate for new Series EE bonds is 5.06 percent from May through October 1998. For more information on savings bonds visit our web site: www.savingsbonds.gov or www.publicdebt.treas.gov.

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PA-351

MEDIA ARE INVITED. CAMERAS MUST BE SET UP BY 9:30A.M. ON THURSDAY, JUNE 4, 1998, AT THE CHILDREN'S MUSEUM AUDITORIUM, 800 3RD STREET, N.E., WASHINGTON, D.C. 20002.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

EMBARGOED UNTIL 2:30 P.M.
June 2, 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 June 11, 1998. This offering will result in a paydown for the Treasury of about $1,375 million, as the maturing publicly held weekly bills are outstanding in the amount of $14,387 million.

In addition to the public holdings, Federal Reserve Banks for their own accounts hold $7,137 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 $2,643 million as agents for foreign and international monetary authorities, which may be refunded within the offering amount at the weighted average discount rate of accepted competitive tenders. Additional amounts may be issued for such accounts if the aggregate amount of new bids exceeds the aggregate amount of maturing bills.

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

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

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Attachment

RR-2487

HIGHLIGHTS OF TREASURY OFFERINGS OF WEEKLY BILLS
TO BE ISSUED June 11, 1998

June 2, 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 AJ 0	912794 5C 4
Auction date	June 8, 1998	June 8, 1998
Issue date	June 11, 1998	June 11, 1998
Maturity date	September 10, 1998	December 10, 1998
Original issue date	March 12, 1998	December 11, 1997
Currently outstanding	$11,377 million	$18,011 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:

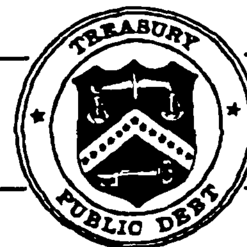
Noncompetitive tenders .... Prior to 12:00 noon Eastern Daylight Saving time on auction day

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

PUBLIC DEBT NEWS

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



TREASURY SECURITY AUCTION RESULTS
BUREAU OF THE PUBLIC DEBT - WASHINGTON DC

FOR IMMEDIATE RELEASE
June 02, 1998

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 12-DAY BILLS

Term:	12-Day Bill
Issue Date:	June 03, 1998
Maturity Date:	June 15, 1998
CUSIP Number:	912795EK3

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate 1/	Price
Low	5.30 %	5.39 %	99.823
High	5.31 %	5.39 %	99.823
Average	5.30 %	5.39 %	99.823

Tenders at the high discount rate were allotted 90%.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 48,057,900	$ 15,002,900
Noncompetitive	1,000	1,000
TOTAL	$ 48,058,900	$ 15,003,900

Bid-to-Cover Ratio = 48,058,900 / 15,003,900 3.20

1/ Equivalent coupon-issue yield.

RR-2488

PUBLIC DEBT NEWS

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

EMBARGOED FOR RELEASE AT 3:00 PM
June 4, 1998

Contact: Peter Hollenbach
(202) 219-3302

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

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

Dollar Amounts in Thousands

Principal Outstanding (Eligible Securities)	$1,338,262,842
Held in Unstripped Form	$1,110,933,706
Held in Stripped Form	$227,329,136
Reconstituted in May	$11,501,513

The accompanying table gives a breakdown of STRIPS activity by individual loan description. The balances in this table are subject to audit and subsequent revision. These monthly figures are included in Table VI of the *Monthly Statement of the Public Debt*, entitled "Holdings of Treasury Securities in Stripped Form."

The STRIPS data along with the new *Monthly Statement of the Public Debt*, is available on Public Debt's Internet homepage at: **www.publicdebt.treas.gov**. A wide range of information about the public debt and Treasury securities is also available on the homepage.

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RR-2489

TABLE VI - HOLDINGS OF TREASURY SECURITIES IN STRIPPED FORM, MAY 31, 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 WN8	C	9-1/4	912820 AP2	08/15/98	11,342,646	7,199,446	4,143,200	80,800
WW8	D	8-7/8	AQ0	11/15/98	9,902,875	4,954,075	4,948,800	92,800
XE7	A	8-7/8	AR8	02/15/99	9,719,623	6,769,223	2,950,400	12,800
XN7	B	9-1/8	AS6	05/15/99	10,047,103	5,920,703	4,126,400	84,800
XW7	C	8	AT4	08/15/99	10,163,644	6,840,319	3,323,325	90,400
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	6,852,360	3,921,600	129,600
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	17,502,026	17,502,026	0	0
YN6	A	8-1/2	AV9	02/15/00	10,673,033	8,072,633	2,600,400	12,400
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	17,206,376	17,206,376	0	0
4C3	AC	5-5/8	CV7	04/30/00	15,633,840	15,633,840	0	0
YW6	B	8-7/8	AW7	05/15/00	10,496,230	5,545,830	4,950,400	0
ZE5	C	8-3/4	AX5	08/15/00	11,080,646	7,382,406	3,698,240	70,560
ZN5	D	8-1/2	AY3	11/15/00	11,519,682	7,095,682	4,424,000	13,200
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	7,975,202	3,337,600	120,000
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	8,785,283	3,612,800	111,000
4E9	T	5-5/8	CX3	05/15/01	12,873,747	12,873,747	0	0
B92	C	7-7/8	BB2	08/15/01	12,339,185	8,830,385	3,508,800	99,200
D25	D	7-1/2	BC0	11/15/01	24,226,102	19,930,982	4,295,120	69,920
F49	A	7-1/2	BD8	05/15/02	11,714,397	9,828,637	1,885,760	40,480
G55	B	6-3/8	BE6	08/15/02	23,859,015	22,481,415	1,377,600	94,400
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	0
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	22,884,163	678,528	69,568
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	14,172,892	14,172,892	0	0
4D1	F	5-3/4	CW5	04/30/03	12,573,258	12,573,258	0	0
L83	B	5-3/4	BG1	08/15/03	28,011,028	27,571,828	439,200	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	14,426,772	13,600	119,200
Q88	C	7-1/4	BK2	08/15/04	13,346,467	12,826,467	520,000	2,400
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	0
2U5	C	6-5/8	BX4	05/15/07	13,958,186	13,935,786	22,400	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
4F6	C	5-5/8	CY1	05/15/08	14,775,244	14,775,244	0	0
Total Treasury Notes					807,570,790	747,447,513	60,123,277	1,313,528
Treasury Inflation-Indexed Notes:								
CUSIP:	Series:	Interest Rate:						
912827 3A8	J	3-5/8	912820 BZ9	07/15/02	17,031,105	17,031,105	0	0
2M3	A	3-3/8	BV8	01/15/07	16,131,435	16,131,435	0	0
3T7	A	3-5/8	CL9	01/15/08	8,443,338	8,443,338	0	0
Total Inflation-Indexed Notes					41,605,878	41,605,878	0	0
Treasury Inflation-Indexed Bonds:								
CUSIP:		Interest Rate:						
912810 FD5		3-5/8	912803 BN2	04/15/28	8,427,373	8,427,373	0	0
Total Inflation-Indexed Bonds					8,427,373	8,427,373	0	0
Grand Total					1,338,262,842	1,110,933,706	227,329,136	11,501,513

Note: On the 4th workday of each month Table VI will be available after 3:00 p.m. eastern time on the Commerce Department's Economic Bulletin Board (EBB) and on the Bureau of the Public Debt's website at http://www.publicdebt.treas.gov. For more information about EBB, call (202) 482-1966. The balances in this table are subject to audit and subsequent adjustments.

TABLE VI - HOLDINGS OF TREASURY SECURITIES IN STRIPPED FORM, MAY 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	4,532,206	3,769,600	166,400
DQ8	12	AD5	05/15/05	4,260,758	2,821,958	1,438,800	263,550
DR6	10-3/4	AG8	08/15/05	9,269,713	7,189,713	2,080,000	44,800
DU9	9-3/8	AJ2	02/15/06	4,755,916	4,747,916	8,000	0
DN5	11-3/4	912800 AA7	11/15/14	6,005,584	2,879,984	3,125,600	138,400
DP0	11-1/4	912803 AA1	02/15/15	12,667,799	11,466,999	1,200,800	307,680
DS4	10-5/8	AC7	08/15/15	7,149,916	6,702,556	447,360	15,040
DT2	9-7/8	AE3	11/15/15	6,899,859	5,146,259	1,753,600	94,400
DV7	9-1/4	AF0	02/15/16	7,266,854	7,086,054	180,800	355,200
DW5	7-1/4	AH6	05/15/16	18,823,551	18,565,951	257,600	0
DX3	7-1/2	AK9	11/15/16	18,864,448	18,058,928	805,520	0
DY1	8-3/4	AL7	05/15/17	18,194,169	9,133,849	9,060,320	1,011,520
DZ8	8-7/8	AM5	08/15/17	14,016,858	9,165,658	4,851,200	936,000
EA2	9-1/8	AN3	05/15/18	8,708,639	3,039,839	5,668,800	412,800
EB0	9	AP8	11/15/18	9,032,870	2,090,870	6,942,000	99,200
EC8	8-7/8	AQ6	02/15/19	19,250,798	6,201,198	13,049,600	888,000
ED6	8-1/8	AR4	08/15/19	20,213,832	18,182,152	2,031,680	319,360
EE4	8-1/2	AS2	02/15/20	10,228,868	5,869,268	4,359,600	139,200
EF1	8-3/4	AT0	05/15/20	10,158,883	3,036,643	7,122,240	370,720
EG9	8-3/4	AU7	08/15/20	21,418,606	5,361,486	16,057,120	739,040
EH7	7-7/8	AV5	02/15/21	11,113,373	10,042,973	1,070,400	96,000
EJ3	8-1/8	AW3	05/15/21	11,958,888	4,473,768	7,485,120	112,000
EK0	8-1/8	AX1	08/15/21	12,163,482	6,218,842	5,944,640	536,640
EL8	8	AY9	11/15/21	32,798,394	8,272,519	24,525,875	1,587,075
EM6	7-1/4	AZ6	08/15/22	10,352,790	8,883,190	1,469,600	55,200
EN4	7-5/8	BA0	11/15/22	10,699,626	2,712,426	7,987,200	177,600
EP9	7-1/8	BB8	02/15/23	18,374,361	11,041,561	7,332,800	603,200
EQ7	6-1/4	BC6	08/15/23	22,909,044	18,114,420	4,794,624	54,400
ES3	7-1/2	BD4	11/15/24	11,469,662	3,160,862	8,308,800	21,360
ET1	7-5/8	BE2	02/15/25	11,725,170	3,321,970	8,403,200	129,600
EV6	6-7/8	BF9	08/15/25	12,602,007	10,413,847	2,188,160	32,000
EW4	6	BG7	02/15/26	12,904,916	12,589,316	315,600	0
EX2	6-3/4	BH5	08/15/26	10,893,818	10,148,218	745,600	88,800
EY0	6-1/2	BJ1	11/15/26	11,493,177	10,864,377	628,800	127,200
EZ7	6-5/8	BK8	02/15/27	10,456,071	8,995,271	1,460,800	233,600
FA1	6-3/8	BL6	08/15/27	10,735,756	10,452,556	283,200	0
FB9	6-1/8	BM4	11/15/27	22,518,539	22,467,339	51,200	32,000
Total Treasury Bonds..........................				480,658,801	313,452,942	167,205,859	10,187,985

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED UNTIL 2:45 P.M. EDT
Remarks as Prepared for Delivery
June 3, 1998

SECRETARY ROBERT E. RUBIN
HARVARD BUSINESS SCHOOL CLASS DAY

I am honored to have been invited to speak with you today. I can remember when I graduated from Harvard College, a long time ago, and then spent three days at Harvard Law School before dropping out. At that time, I never imagined the world in which I would be living in the decades to follow, partly because of my limited experience and partly because of the immense and unpredictable changes that lay ahead.

Most of you have experienced far more of the world as you graduate from the Harvard Business School than I had when graduating from Harvard College. But I would still give long odds that because we live in an era of unprecedented dynamic change, your experience in the decades ahead will turn out to involve much that you have little or no sense of today.

No one has ever charted just how wrong graduation speakers are about their predictions of the future, or how little heed graduates pay to the advice offered in graduation addresses. Having said that, today I would like to offer a few observations based on my experiences for your consideration as people who have a broader set of opportunities and options than most Americans about how you conduct your lives.

I will divide this discussion into two segments: Your professional lives first, and then your contribution as citizens.

Let me quickly add that speaking to you from my own experience is a bit awkward for me, partly because I don't like to talk about myself and partly because I am acutely conscious of the role of chance in the outcomes of life. I remember talking once long ago with a legendary Goldman, Sachs senior partner about an investment position that turned out well for reasons we had not expected. He said he would rather be lucky than be smart. He came from the old school of trading room management, where the principle technique was yelling, and his admonitions

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often implied that I had better be lucky because that was my only choice. In any case, I said I disagree, and that you need to be both. As I look at my own life, and the lives of many others I've known, I believe that intensity in your professional life is a commonality amongst those for whom worldly matters have turned out well. But anyone who has done well will, if they're honest with themselves, have little difficulty identifying various points in life where chance played a critical role -- and that should lend both to appropriate humility about their own success and to their advice to others about the conduct of life. That said, I will nevertheless offer my own observations.

I still well remember after starting work at a law firm in New York -- I eventually did graduate from Yale Law School -- a very successful New York lawyer advised me that intensity in your work is a requisite for success. But he went on to say that you shouldn't wear blinders and should be willing to take chances. It didn't take terribly long before I realized that practicing law was not what I wanted to do. At the same time, I had kept my eyes on the world around me, and had become somewhat intrigued by something I knew nothing about: the then-vastly less visible world of investment banking. So, after a number of investment banking firms had turned me down -- in those days, the idea of a lawyer working as an investment banker was viewed as somewhat odd-- I found a job at Goldman, Sachs in an area I'd never heard of: risk arbitrage.

So, I figured I'd try and if this didn't work, I would try something else. That was the beginning of 26 years at Goldman Sachs. And, while 26 years at one place might seem rather narrow, I found that exactly the same principles applied inside a firm: do your best with the utmost focus, but also reach out for opportunities to get involved in other areas and to expand your role. In later years that was the advice I always gave to people who came to work at Goldman, Sachs -- do your job to the fullest, but also seek out opportunity to broaden your experience and knowledge. And I still think that approach will serve you well.

As I spent those 26 years at Goldman Sachs, I also learned a valuable lesson about the importance of people. The management literature today emphasizes that people matter; that businesses are built on the ideas and energy of employees; that managers can only be as successful as the people who work with them. Thus, to say that people matter will not sound revelatory to you. But people matter even more than you think.

After a few years at the firm, I had developed extensive experience in the highly technical field of risk arbitrage, and I was able to use that to get involved in other areas of my firm's business. Then the partner I reported to retired, and I remember one of the firm's senior partners coming to me and saying that so far, I had only needed to be good at what I did, but now I had a whole new and different challenge of learning to help lead the broad range of people who were going to look to me for leadership. I quickly discovered that relating to those who worked around me and trying to help a large number of people work effectively with each other was an enormous, complex and time consuming undertaking, but also one that was extraordinarily interesting and rewarding. In later years, as I participated in decisions about peoples' careers, I have so often been struck by how many individuals who were very good at what they did seemed

relatively tone deaf to the people around them, which limited both the careers of the individuals involved and the contributions they could make to their organizations.

You learn a lot more by listening than by talking, and you accomplish a lot more with people by stressing their strengths as well as helping them focus on their shortcomings. Also, the more opportunity and credit you give to those working with you -- and the more authority and recognition they have, the more they are likely to accomplish and the better that is for you. And finally, listening respectfully to the ideas of others improves your own understanding and leads to better decisions. I don't know what the textbooks on management say, but these thoughts that I picked up from others as I struggled to learn how to manage have always seemed to me a pretty good primer.

I can remember when I first talked to then-President Elect Clinton about the possibility of being part of his administration. He said that he was looking for people who not only had experience and skill but who also worked well with others so that the total would be greater than the sum of the parts rather than less than the sum of the parts. He wanted to avoid what he felt too often occurred in administrations, where vast egos focused on shoving each other aside rather than on working together to solve problems. As I said a moment ago, having been involved in a great number of decisions about promoting or not promoting people, I'm absolutely convinced that you can distinguish yourself more and do better for yourself -- as well for others by doing your job well, and working effectively with others -- both peers and those junior to you -- than by trying to elbow others aside.

Another thought that comes to mind is one that I learned intellectually in college and law school, but then internalized as a matter of financial life or death on Wall Street: Decisions are about probabilities; not absolutes. One of the brightest people I knew in my time on the Street was an arbitrager who had great confidence in his views. Once, on what was, in fact, an extremely attractive investment, he ignored this fundamental lesson, and committed on a vast scale to a position that he treated as an absolute rather than a high probability. Matters took an unexpected turn, and he ended up bankrupt. That is a lesson for everything that I've ever seen, whether it be an investment decision or a judgment about a major national policy issue. If you can internalize a probabilistic mindset and live by that discipline, you'll be well prepared for the uncertainties and complexities of life and your undertakings. Alternatively, if you think in terms of absolutes and see things in black and white, sooner or later you'll fall over a cliff, most likely sooner.

Let me turn now and make some observations about another realm: your role as public citizens.

And here, two things come together to suggest a course of action: number one, your country needs you, and number two, you can do well by doing good.

You are leaving school to enter the workforce at a time when our country is doing very well. But we also face enormous challenges that must be met if we are going to continue to be

successful 10 or 15 years from now. I can remember an interview I had with a well respected European magazine toward the beginning of this Administration. After the interview, the interviewer said that our economy was very strong right now but that in 15 or 20 years we would be a second tier economy. I said that I didn't agree, but asked why he thought that. And he said, "Two things. Your public schools and your inner cities."

In many ways, he was right.

These are challenges that we must meet now if we are going to be productive and competitive in the global economy in the years and decades ahead. Many of you may feel relatively immune from these matters, but I believe that our economy will fall far short of its full potential for all of us -- no matter where we live or what our incomes may be -- unless these challenges are met. Just think of the difference it would make in social costs and in productivity if our public school system was strong and if the residents of our inner cities and distressed rural areas were successfully equipped to enter the economic mainstream. As graduates of the Harvard Business School, you are among the most privileged members of our society, and whatever your vocation may be, our country needs the privileged to spend time on the central issues of our society. Each of you can contribute to facing these issues -- for example, with respect to the specific challenges I just mentioned, by personal involvement as a mentor for inner city kids or through working to enlist your employer in the many practical programs to help support public schools in individual communities. And I would argue that by pitching in, you not only help your country, but you can directly help yourself.

A relatively senior figure on Wall Street said to me years ago that many of the most important business relationships he had were with the people he met through his other activities. He had found that his business and non-business lives fed each other to the benefit of both. And you will find that beyond the business value outside involvement can provide, your life will gain entirely new dimensions that are interesting and enlarging, and thus are their own reward. In my case, for example, in the early 1970s I participated in meetings in the 28th Precinct Community Council in Central Harlem. From the police officer who ran these meetings, I gained a different perspective on the lives of our urban poor, a perspective that has stayed with me ever since.

I strongly believe that in some fair measure our country's future will depend on enlisting its most gifted and best trained in the great issues of the nation. Hopefully, the country will continue to be fortunate enough to have some such people in public service, but in most cases it means people who are energetically involved in the private sector also spending some time on the public challenges to our well-being.

Moreover, everything I've said applies at least equally to those of you from other countries, especially those from developing nations, in going back to your home countries. Over the past 10 or 20 years, I have worked extensively with developing countries and with countries transitioning from Communism, and I can tell you from my own experience how great the needs and the opportunities for people with the training and skills you now have.

With that in mind, let me turn for a moment to the interdependent global economy. In that global economy, the economic well-being of each nation is enormously affected by the economic well-being of the rest of the world, and that will be even more true in the years and decades ahead. Moreover, American engagement in the issues of the global economy, such as trade liberalization, promoting growth and reform in developing nations, and dealing with the issues of financial instability, such as the Mexican crisis in 1995, the current Asian crisis, and reform of the architecture of the global financial markets, is absolutely critical to fostering prosperity in the United States and around the globe.

Yet, based on the experience of my five and a half years in this Administration, I have become deeply concerned -- and I can tell you the President very much shares this concern -- that public support for forward looking international economic policy may be waning at a time when our country's economic, national security and geopolitical interests require just the opposite. For example, as I speak here this afternoon, the United States lacks fast track trading authority and our trading partners are moving forward on new trading 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.

I often speak to business groups, and say to them that the business community is uniquely situated to address this critical problem. Business has lived this new world of the global economy, understands its opportunities and benefits, and has the resources to convey that understanding to the American people. You will have the opportunity to be part of businesses around the country, and even in the early stages of your career, you can help urge your companies to play the role that I believe only business can play in building the absolutely requisite public support for a robust international role for our country.

At a recent meeting of finance ministers from the Pacific region, one Minister asked me how the world was ever going to deal with the immense challenges of the new global economy and new global financial markets if the world's major economy was going to shrink from its appropriate role. You have an extraordinary opportunity to help us get back on the right track.

Let me conclude with a comment about government and public service. It has become fashionable among some to denigrate public service, and to denigrate government. I believe that the well-being of our country requires just the opposite. Whatever your views may be on the appropriate role of government -- and that is a reasonable debate that has gone on for as long as we have been a republic -- there is no question that there are functions central to our well-being that only government can perform, and that our country benefits mightily from attracting and retaining outstanding people in public service. Thus, I believe that our country's well being requires that each of us, especially those in positions of influence as many of you will be, respect

those in public service, manifest that respect in every way possible, and reject the denigration of public service.

Moreover, speaking for myself, the opportunity to apply my 26 years of Wall Street involvement in economic issues, markets and the global economy to the public policy issues of our nation has been an extraordinary experience. I had always wanted to spend some time in government if I could do so in a meaningful way, partly because I wanted to contribute more broadly and partly because I wanted to see how the world worked from the perspective of government. I would urge all of you to give thought to that possibility yourself at some point in your career, and to involve yourself in our nation's political life in one way or another.

Graduation speeches tend not to be long remembered. But the feelings of pride that families have in their graduating students, the feelings of gratitude that students have for the help of their parents and families, and the feelings of respect that departing students have for those who taught them – these feelings should never go away, and, in fact, should intensify over time.

I hope you have an opportunity to thank your families and teachers for what they have done to lead to this special day. And, then, that you can go on to fully realize -- for yourself and your country -- the great opportunities that this day and all that led up to it give you.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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Text as Prepared for Delivery
June 5, 1998

TREASURY UNDER SECRETARY FOR DOMESTIC FINANCE
JOHN D. HAWKE, JR.
HOUSE GOVERNMENT REFORM AND OVERSIGHT SUBCOMMITTEE
ON GOVERNMENT MANAGEMENT, INFORMATION AND TECHNOLOGY

Mr. Chairman and Members of the Subcommittee, thank you for this opportunity to discuss the Department of the Treasury's progress in implementing the Debt Collection Improvement Act of 1996 (DCIA). Your continued interest in our efforts to carry out this important program has been of great value to us, and I am pleased to report that we have made significant progress since the last of these oversight hearings. I want to assure you again that the Department places a high priority on the successful implementation of the DCIA.

There have been major changes in both our strategy and in the management team assigned to the debt collection program. During the past several months our approach has been to make the decisions that will best move the program forward -- even if that means reassessing our approach, refocusing priorities and acknowledging past mistakes.

Analysis of the Debt Portfolio

During our reassessment of the program, it became clear that we needed a much better understanding of the composition of the $52 billion portfolio of delinquent debts owed to the government. In order to avoid a possible perception that the entire $52 billion would actually be collectable, we determined that an analysis of the debt portfolios of the Federal agencies was necessary. We have now established through internal and independent external analysis that only about 60% of the $52 billion is referable to Treasury for collection and that a significantly smaller amount is likely to be collectable by Treasury under the DCIA.

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Our approach in this endeavor was twofold. First, we met with the five major Federal agencies as well as all other Chief Financial Officer agencies to assist them in analyzing the composition and referability of their non-tax debt. These 24 agencies hold 92 percent of all delinquent Federal non-tax debt. We then contracted with Price Waterhouse to provide an analysis of the composition of this debt and a "walkdown" from the $52 billion to the amount that Treasury could ultimately expect to collect through its own efforts under the DCIA.

Price Waterhouse calculated that $47.2 billion of the $52 billion is older than 180 days, and thus within the scope of the DCIA. Of that amount, $18.1 billion is ineligible for referral to Treasury for various reasons. For example, many of the debts are not legally enforceable because the debtor has filed for bankruptcy protection or is otherwise legally entitled to temporary relief from collection action; other debts are in dispute and the subject of pending litigation. In addition, foreign sovereign debt is excluded. Of the remaining $29.1 billion that is eligible for referral to Treasury for offset, $8.5 billion is eligible for cross-servicing. The remaining $20.6 billion is ineligible for cross-servicing due to a number of DCIA exemptions, such as those for debt in litigation and debt that has been referred to a private collection agency.

Taking into account these limitations on cross-servicing and administrative offset, and after examining private sector experience in collecting debt with comparable age characteristics, Price Waterhouse has estimated that Treasury can collect between $864 million and $1 billion annually once all eligible debts are referred and the program is fully implemented. An estimated $661 million of this total will result from the ongoing collection activity of the tax refund offset program, while $117 million to $225 million will result from cross-servicing, and an additional $86 million to $142 million from administrative offset.

The Price Waterhouse analysis not only provides Treasury with a better understanding of the composition and age of the body of debt owed the Federal government, but also provides a quantitative basis upon which to establish realistic program goals, including both agency referral and collection targets. The information allows us to verify which of the collection tools will be the most effective and to set our priorities accordingly.

The ITOP/GTOP System Choice

Another critical decision we have confronted relates to the choice of which automated system to use to accomplish administrative offsets. At the time of the last hearing we discussed two systems: One, which we identified as the Interim Treasury Offset Program (ITOP), was developed for us by the Federal Reserve Bank of San Francisco. This system became operational in the spring of 1996 and remains in use today. The other, which we have called the Grand Treasury Offset Program (GTOP), was developed by a private sector vendor starting in September 1996, after FMS management decided that a new automated system was needed to meet the anticipated volume of offsets and to provide more efficient matching of payment and debt files. It was planned that once GTOP was developed and made operational, it would replace ITOP.

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RR-2491

One of the top priorities of the new management at FMS has been to evaluate these two systems to determine which can best move the debt collection program forward, based on an assessment of the requirements and circumstances that exist today. After carefully assessing the technical data processing issues, as well as the merits from a business perspective, FMS management has concluded, and the Department agrees, that the best approach is to use the ITOP system for the administrative offset program. ITOP is a proven system; it has been in operation for approximately two years; it has recently been successfully enhanced to accommodate the FY 1998 modified tax refund offset program; and it can be further enhanced to handle greater volumes of debts and additional payment streams, and to accomplish all the functions required under DCIA in a manner that is faster, less uncertain, and at a lower cost than the other system.

FMS management believes that the ITOP system provides us the best opportunity to maximize the collection of delinquent debts for the foreseeable future. While our decision not to pursue GTOP means that approximately $5 million invested in that system will have been spent without benefit to the Government, that decision avoids the expenditure of even greater amounts that would be necessary to pursue GTOP further – and even then the outcome would still not be certain. I believe this was a sensible and responsible decision.

DCIA Progress

I would like to turn now to Treasury's progress in implementing the DCIA.

- In the November hearing, we testified that more than 29,000 debts, having a dollar value in excess of $460 million, had been referred to FMS for cross-servicing. Over the last six months, total referrals have more than tripled, to over 97,000 debts, totaling $1.8 billion.

    - We also testified that cumulative cross-servicing collections totaled $1.1 million, excluding private collection agencies, which were not active in November of 1997. This total has increased to almost $5.5 million, which includes collections by PCAs. In addition, repayment agreements, which are voluntary agreements by debtors to make scheduled installment payments, have increased from $2.7 million to $31.1 million. Much of this progress is attributable to our increased use of demand letters, on Treasury letterhead, to delinquent debtors. In addition, the successful implementation of the government-wide private collection agency (PCA) contract in January of this year is beginning to yield results. We have begun assigning a large percentage of cross-servicing referrals to 12 PCAs, and they have collected over $600,000 as of May 15th.

    - In November we testified that the Treasury Offset Program database contained 2.4 million referred debts totaling almost $16.7 billion in delinquent receivables. To date, the database has almost 4.5 million debts totaling approximately $23.5 billion. This represents an increase since our last hearing of 2.1 million referrals and an additional $6.8 billion in receivables.

- As of the last hearing, cumulative administrative offset collections totaled more than $936,000. Today, collections are almost $2 million.

Treasury has made significant progress in other areas as well:

- In January, FMS and IRS completed processing and loading agency debt files to the Treasury Offset Program and Tax Refund Offset Program databases for the 1998 transition year process, the precursor to complete merger of the two offset programs in January 1999. This increased the database of delinquent Federal non-tax debt available for administrative offset from $9.4 billion to $16.7 billion and represents an increase from 17 to 36 participating agencies. Tax refund offsets were higher this year than they were last year, increasing from $1.39 billion in May 1997 to $1.74 billion in May 1998. Commissioner Gregg will provide more details in his testimony of our work in this area.

- We are working closely with the National Finance Center to incorporate their Federal salary payments into the administrative offset program, and with the Social Security Administration to develop a joint implementation plan for inclusion of SSA benefit payments into the program.

- In compliance with the President's Executive Order mandating that Treasury support collection of delinquent child support debt through administrative offset, we are working with the Department of Health and Human Services and the States to bring more delinquent child support debts into the system for offset. The number of States and territories participating has increased from 8 to 15, with referrals totaling over $6.8 billion as of May 15th.

- In order to increase and strengthen agency compliance with DCIA referral requirements, FMS has implemented an outreach effort that focuses on the transfer of all eligible delinquent non-tax debt to FMS. Through this effort, we are working with approximately 50 agencies which carry the majority of delinquent debt receivables. FMS has worked out the terms for debt referral with the five major credit agencies (Department of Education, Department of Agriculture, Department of Veterans Affairs, Small Business Administration, and Department of Housing and Urban Development), which hold 70 percent of all delinquent Federal non-tax debt. We have also met with all 24 CFO agencies and have obtained commitments for debt referral. We plan to complete meetings with all remaining agencies and expect to have referral schedules in place by July 31, 1998.

  In this regard, I would like to thank you, Mr. Chairman, and Congresswoman Maloney, for your efforts to assure that agencies understand the importance of

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- We are working closely with the National Finance Center to incorporate their Federal salary payments into the administrative offset program, and with the Social Security Administration to develop a joint implementation plan for inclusion of SSA benefit payments into the program.

- In compliance with the President's Executive Order mandating that Treasury support collection of delinquent child support debt through administrative offset, we are working with the Department of Health and Human Services and the States to bring more delinquent child support debts into the system for offset. The number of States and territories participating has increased from 8 to 15, with referrals totaling over $6.8 billion as of May 15th.

- In order to increase and strengthen agency compliance with DCIA referral requirements, FMS has implemented an outreach effort that focuses on the transfer of all eligible delinquent non-tax debt to FMS. Through this effort, we are working with approximately 50 agencies which carry the majority of delinquent debt receivables. FMS has worked out the terms for debt referral with the five major credit agencies (Department of Education, Department of Agriculture, Department of Veterans Affairs, Small Business Administration, and Department of Housing and Urban Development), which hold 70 percent of all delinquent Federal non-tax debt. We have also met with all 24 CFO agencies and have obtained commitments for debt referral. We plan to complete meetings with all remaining agencies and expect to have referral schedules in place by July 31, 1998.

  In this regard, I would like to thank you, Mr. Chairman, and Congresswoman Maloney, for your efforts to assure that agencies understand the importance of

One of the top priorities of the new management at FMS has been to evaluate these two systems to determine which can best move the debt collection program forward, based on an assessment of the requirements and circumstances that exist today. After carefully assessing the technical data processing issues, as well as the merits from a business perspective, FMS management has concluded, and the Department agrees, that the best approach is to use the ITOP system for the administrative offset program. ITOP is a proven system; it has been in operation for approximately two years; it has recently been successfully enhanced to accommodate the FY 1998 modified tax refund offset program; and it can be further enhanced to handle greater volumes of debts and additional payment streams, and to accomplish all the functions required under DCIA in a manner that is faster, less uncertain, and at a lower cost than the other system.

FMS management believes that the ITOP system provides us the best opportunity to maximize the collection of delinquent debts for the foreseeable future. While our decision not to pursue GTOP means that approximately $5 million invested in that system will have been spent without benefit to the Government, that decision avoids the expenditure of even greater amounts that would be necessary to pursue GTOP further – and even then the outcome would still not be certain. I believe this was a sensible and responsible decision.

DCIA Progress

I would like to turn now to Treasury's progress in implementing the DCIA.

- In the November hearing, we testified that more than 29,000 debts, having a dollar value in excess of $460 million, had been referred to FMS for cross-servicing. Over the last six months, total referrals have more than tripled, to over 97,000 debts, totaling $1.8 billion.

  - We also testified that cumulative cross-servicing collections totaled $1.1 million, excluding private collection agencies, which were not active in November of 1997. This total has increased to almost $5.5 million, which includes collections by PCAs. In addition, repayment agreements, which are voluntary agreements by debtors to make scheduled installment payments, have increased from $2.7 million to $31.1 million. Much of this progress is attributable to our increased use of demand letters, on Treasury letterhead, to delinquent debtors. In addition, the successful implementation of the government-wide private collection agency (PCA) contract in January of this year is beginning to yield results. We have begun assigning a large percentage of cross-servicing referrals to 12 PCAs, and they have collected over $600,000 as of May 15th.

  - In November we testified that the Treasury Offset Program database contained 2.4 million referred debts totaling almost $16.7 billion in delinquent receivables. To date, the database has almost 4.5 million debts totaling approximately $23.5 billion. This represents an increase since our last hearing of 2.1 million referrals and an additional $6.8 billion in receivables.

referring debt. Your recommendation last November for a White House directive on this matter resulted in a communication from OMB Director Raines to all Departments and Credit Agencies to accelerate their compliance in referring delinquent debt.

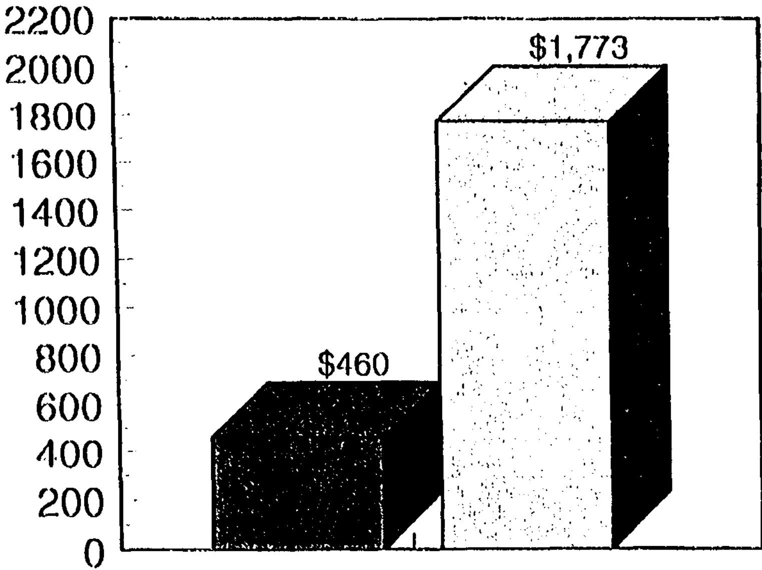
- Since our last hearing, we have published six regulations to implement the provisions of the DCIA. Commissioner Gregg will provide details on our progress in this area, but I want to point out that the critical regulations are in place.

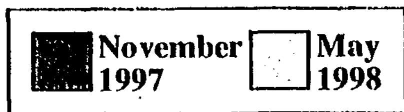
I would like to conclude by emphasizing that Treasury recognizes, despite recent progress, that there is still much work to be done. The Price Waterhouse analysis has provided us with a realistic target, and we are working diligently to achieve the projected potential collections.

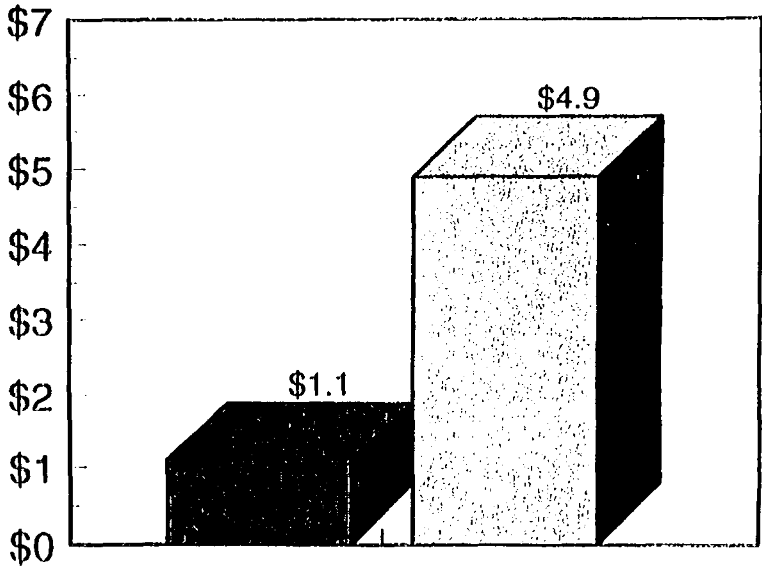
Mr. Chairman, that concludes my testimony. I would now like to ask Commissioner Gregg to discuss FMS's implementation of the DCIA in greater detail.

-30-

Cross Servicing Performance Summary

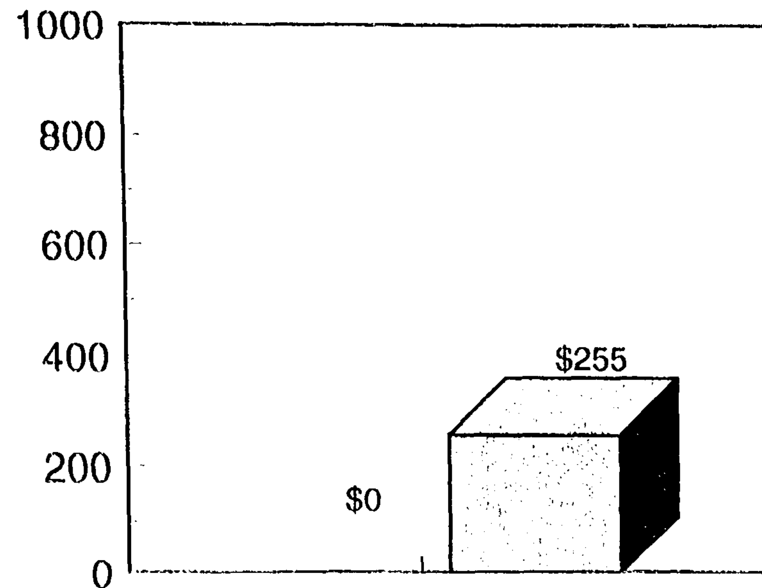


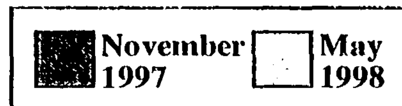


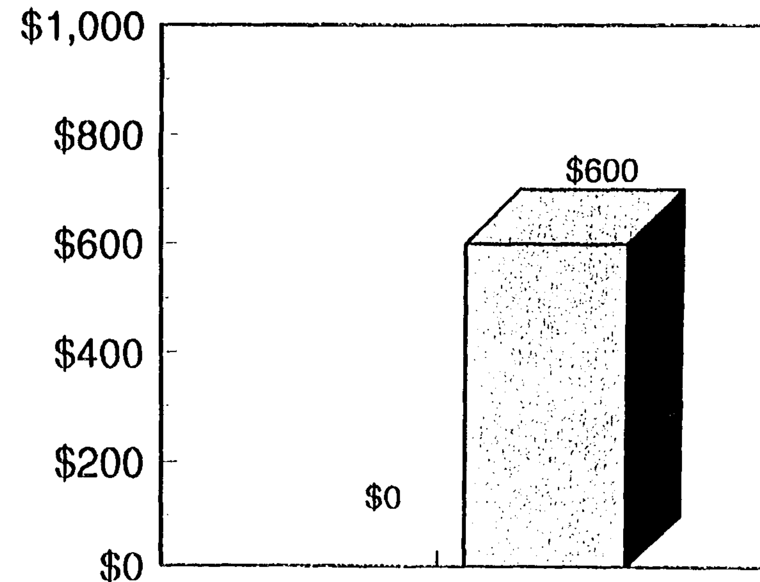


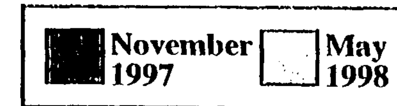
NOTE: Referral and collection figures are cumulative from the date of program inception.

Private Collection Agencies (PCA) Performance Summary



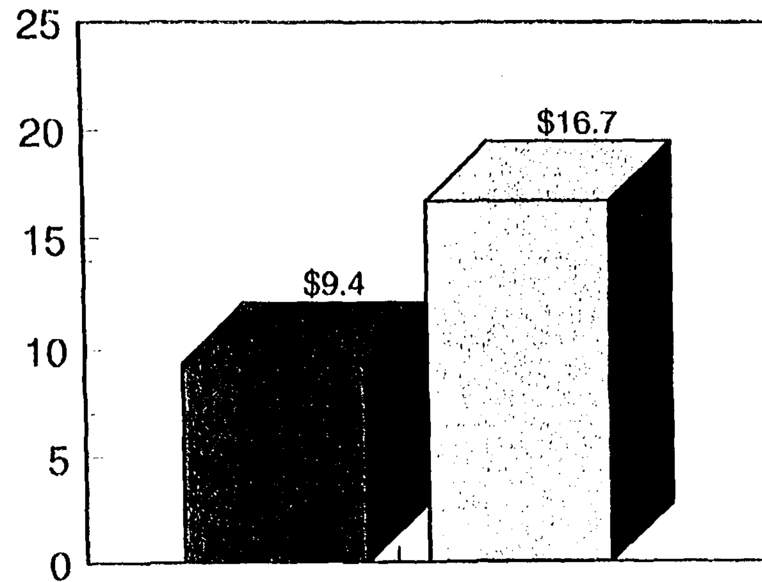


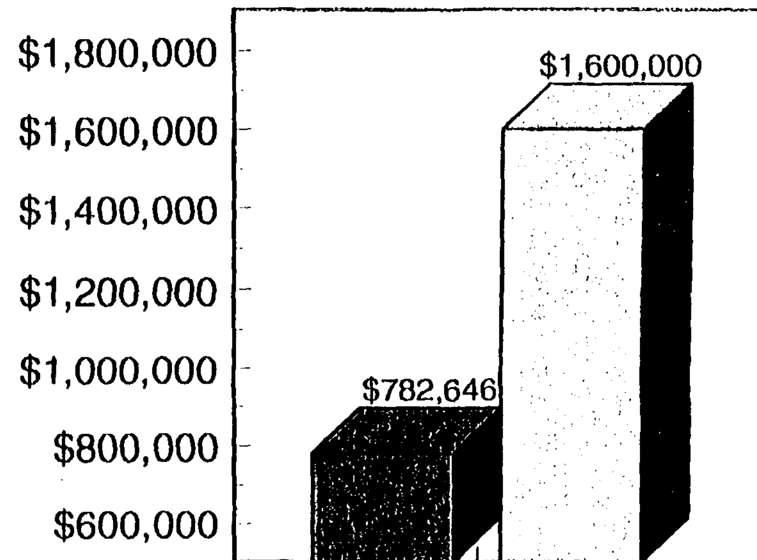


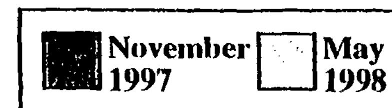


NOTE: Referral and collection figures are cumulative from the date of program inception.

Treasury Offset Performance
Federal Non-tax Debt

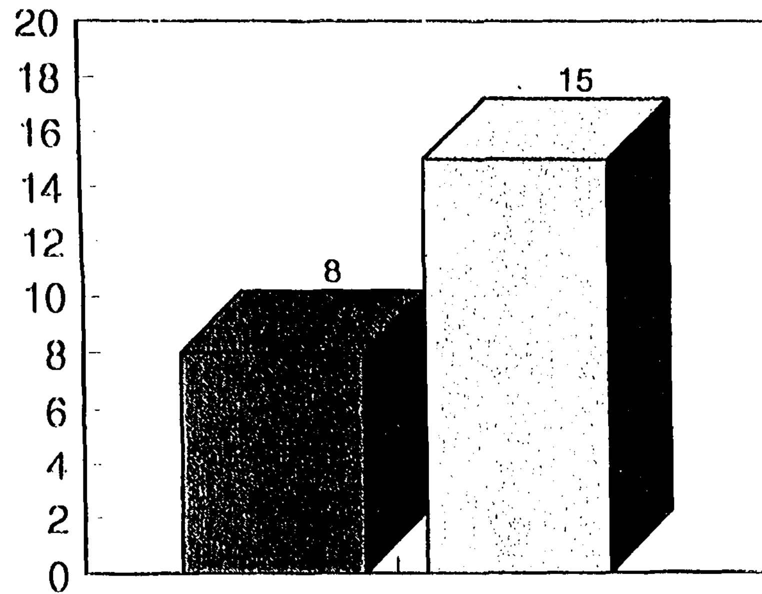


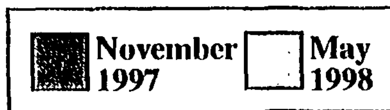


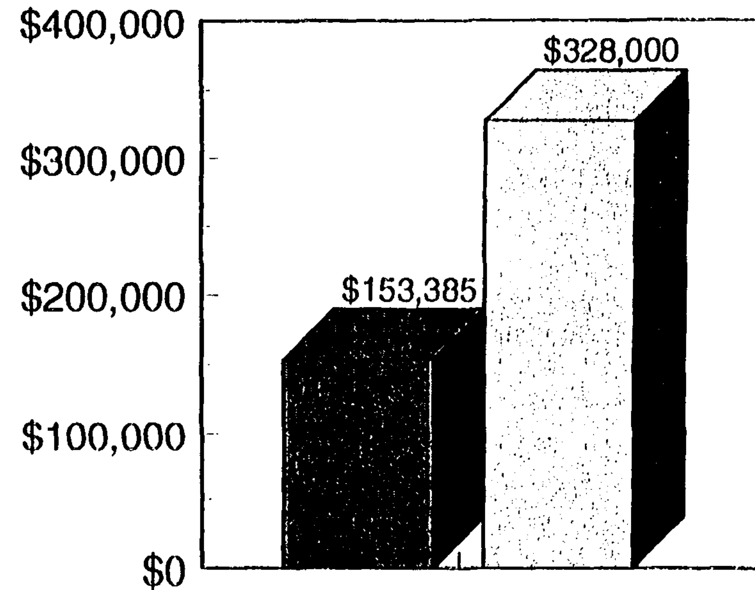


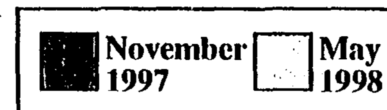
NOTE: Collection figures are cumulative from the date of program inception.

Treasury Offset Performance
Child Support





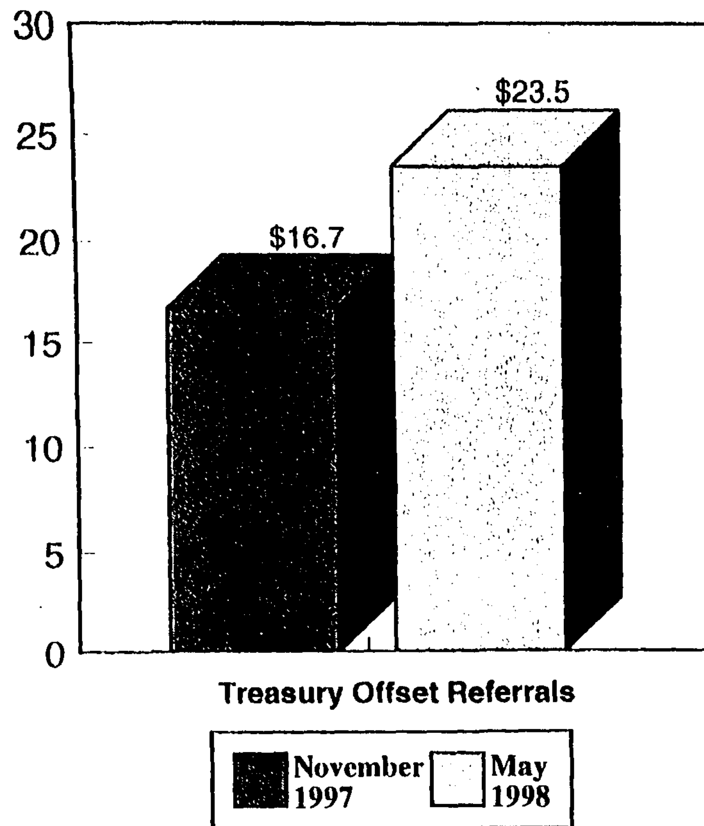


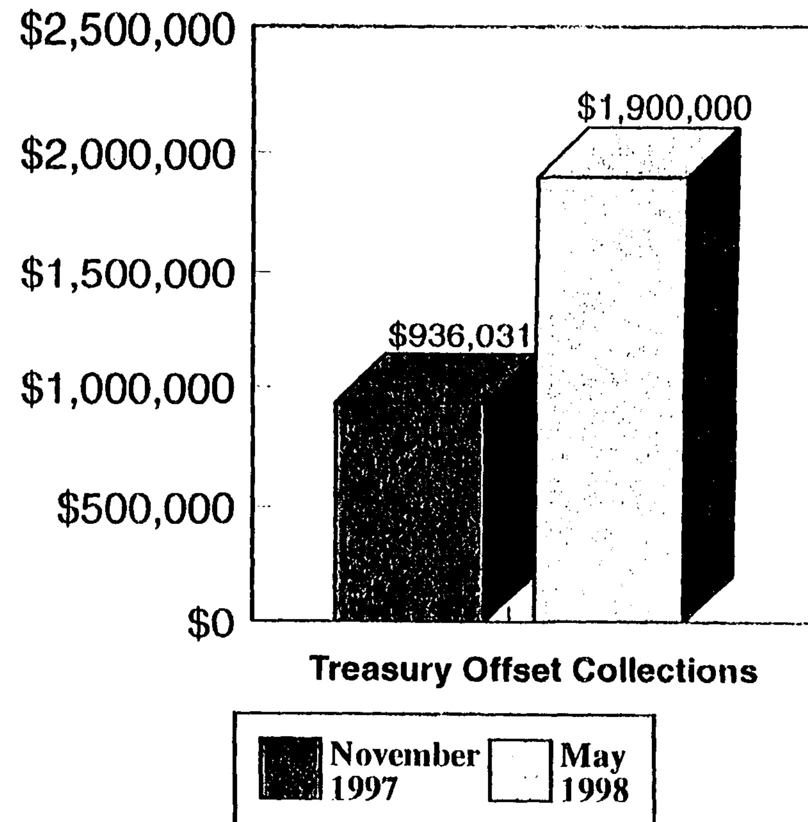


NOTE: Collection figures are cumulative from the date of program inception.

Treasury Offset Performance Summary

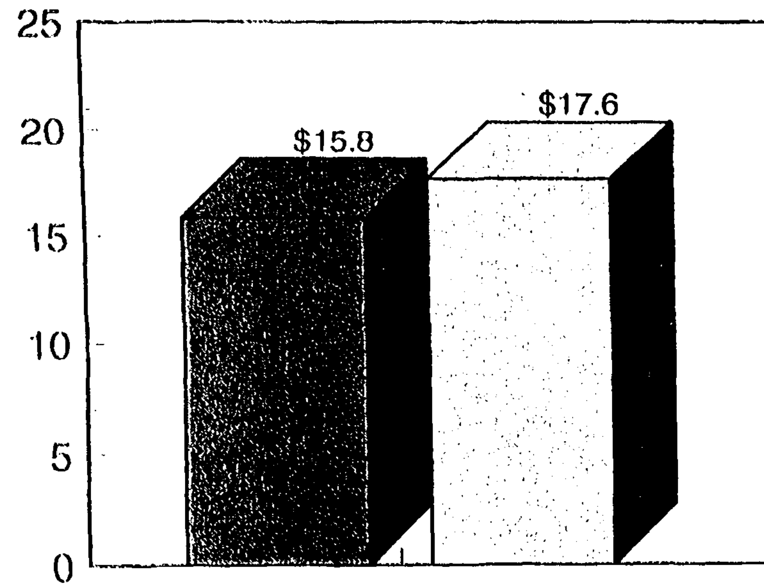
(Federal Non-tax Debt & Child Support)

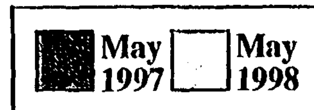


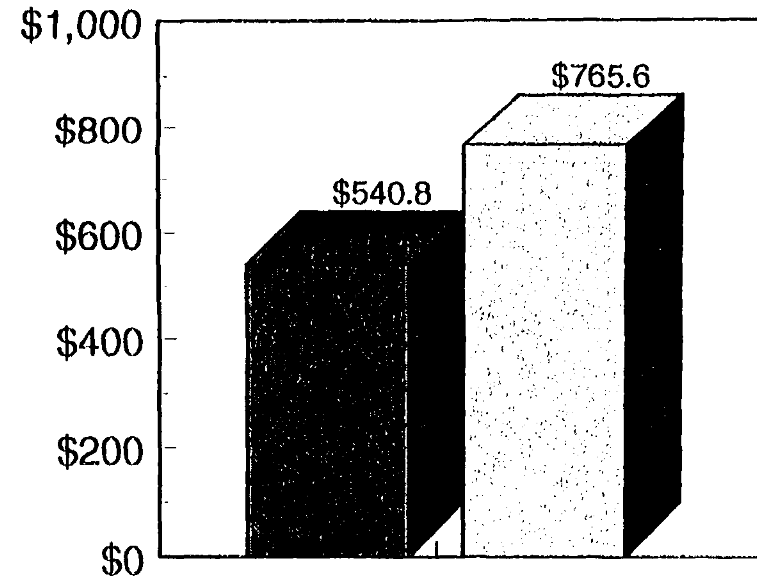


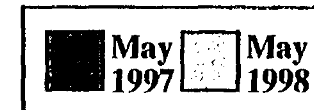
NOTE: Collection figures are cumulative from the date of program inception.

Tax Refund Offset Performance
Federal Non-tax Debt

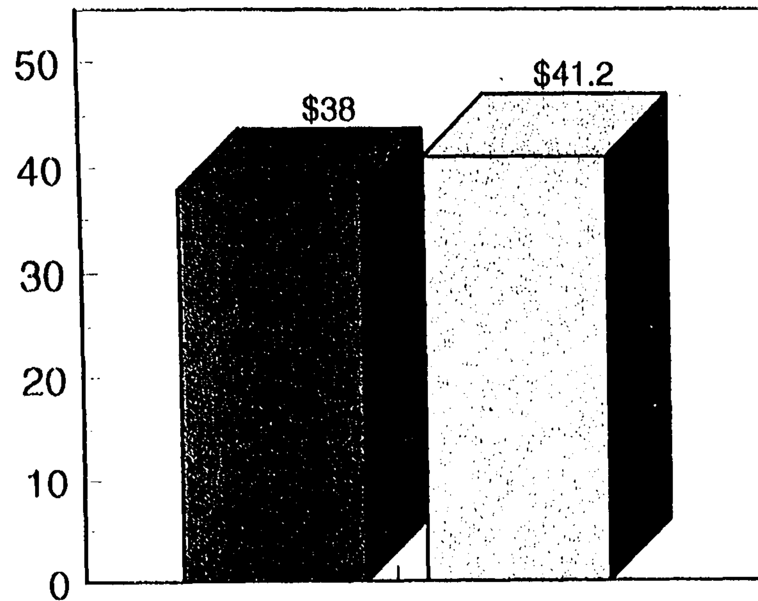


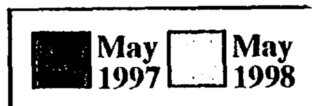


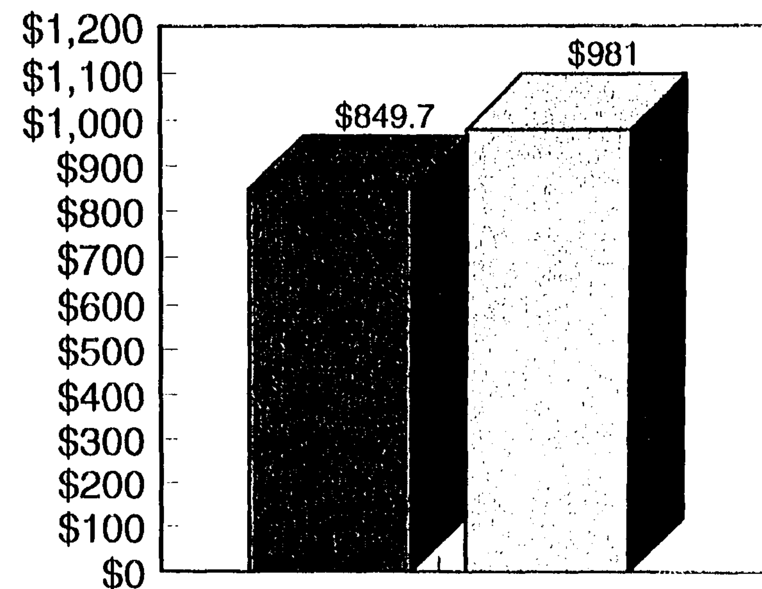




Tax Refund Offset Performance
Child Support

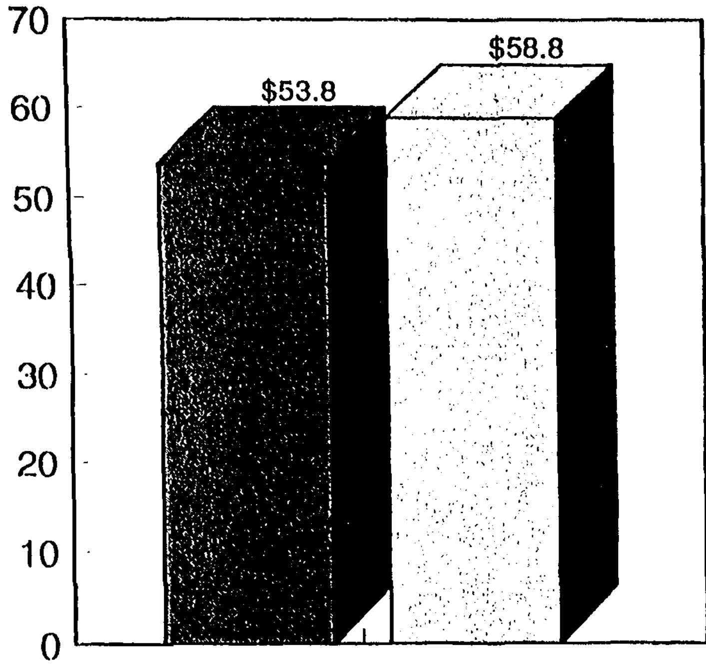


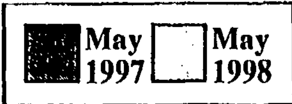


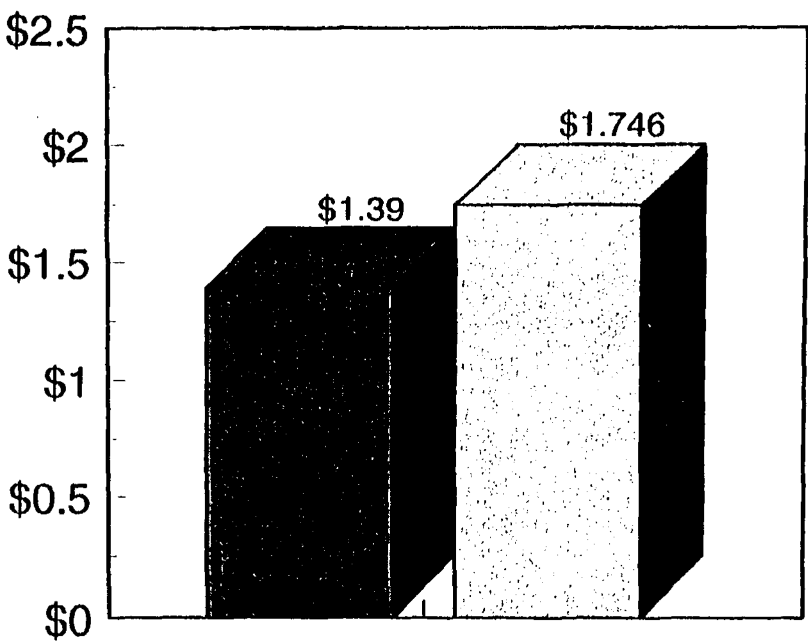


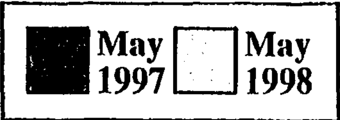
Tax Refund Offset Performance Summary

(Federal Non-tax Debt & Child Support)









DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED UNTIL 9:30 A.M. EDT
STATEMENT FOR THE RECORD
Text as Prepared for Delivery
June 4, 1998

TREASURY DEPUTY ASSISTANT SECRETARY (TAX ANALYSIS) JOHN KARL SCHOLZ SENATE COMMITTEE ON ENERGY AND NATURAL RESOURCES

Mr. Chairman and Members of the Committee, I appreciate the opportunity to discuss with you today the Administration's climate change tax incentives.

As you know, a few months ago, in the Administration's budget for FY 1999, the President presented to the Congress his plan to begin addressing climate change. That plan includes $3.6 billion of tax incentives that will encourage energy efficiency and renewable energy sources. The proposed tax incentives are part of a larger package of technology initiatives. In addition to the $3.6 billion of tax incentives, the Administration proposed $2.7 billion for R&D and deployment of energy efficiency, renewable energy, and carbon-reducing technologies. These provide a total of $6.3 billion in new funding and tax incentives over five years. We believe that these initiatives will stimulate the development and use of technologies that can help to improve energy efficiency and reduce greenhouse gas emissions.

My comments today will focus on an explanation of the Administration's proposed tax incentives.

DISCUSSION

Individuals and businesses underinvest in energy-saving technologies because the private returns from those investments are lower than the benefits to society. Private incentives may be too low because the market prices that serve as the signals that influence investment decisions do not take into account the benefits to society attributable to energy savings. Investments in energy-saving technologies can reduce dependence on oil imports and slow the buildup of greenhouse gases in the atmosphere. Tax incentives are an appropriate method for addressing the failure of market prices to achieve the desirable level of investment in energy-saving technologies because they can increase the private return from the investment by reducing its cost.

RR-2492

The proposed tax incentives are intended to reduce energy consumption and greenhouse gas emissions by encouraging the deployment of technologies that are highly energy efficient and that use renewable energy sources. Tax incentives can only be claimed for items that meet high standards for energy efficiency, use renewable energy sources, or reduce emissions of certain highly potent greenhouse gases. If the incentives are successful and are claimed by taxpayers, there will be energy savings and reductions in greenhouse gas emissions. If taxpayers do not take advantage of the incentives, however, there will be no revenue loss.

Specifically, we designed the incentives to take into account the following considerations:

(1) **Superior energy efficiency compared to conventional equipment**. The eligible items must meet high standards for energy efficiency or use renewable energy sources. This helps to ensure that scarce public resources are being used for the intended goal of reducing greenhouse gases.

(2) **High threshold for eligibility**. The eligible items must presently account for a small share of the market. This minimizes windfalls for purchases that would have been made anyway.

(3) **High up-front costs compared to conventional equipment**. The targeted technologies have significantly higher purchase prices than conventional equipment and, at current market prices, are not universally cost-effective. These high up-front costs are another reason not many would be purchased without the credit.

(4) **Commercially available**. The items must be commercially available or near commercialization. This ensures that the incentives encourage the deployment of new technologies that private markets have already developed.

(5) **Ease of administration**. The items must be able to be defined precisely enough so that the Internal Revenue Service can administer the incentives. This helps to ensure that incentives are claimed only for items for which they are intended.

We also targeted tax incentives to address certain emissions of highly potent greenhouse gases that in some cases have atmospheric lifetimes of thousands of years and a global warming potential as much as several thousand times greater than carbon dioxide, the most abundant greenhouse gas.

The tax incentives the Administration has proposed cover the four major greenhouse gas-emitting sectors of the economy: buildings, industry, transportation, and electricity.

Buildings

Buildings currently account for about one-third of energy consumption and the related greenhouse gas emissions. The proposed tax incentives for the buildings sector would encourage

investment in a new generation of energy-efficient building equipment, highly energy-efficient new homes, and rooftop solar systems.

Tax credit for highly energy-efficient building equipment

A 20 percent tax credit would be provided for the purchase of certain highly energy-efficient building equipment. This credit encourages the purchase of equipment that will improve the energy efficiency of both residential and commercial buildings. The items covered are certain fuel cells, electric heat pump water heaters, natural gas water heaters, electric heat pumps, natural gas heat pumps, and advanced central air conditioners. Only very energy efficient equipment of each type would be eligible. The credit would be temporary -- for equipment purchased between January 1, 1999 and December 31, 2003 (fuel cells would be delayed one year). The revenue cost of this incentive is estimated to be $1.4 billion for FY 1999 - 2003.

The proposed tax credits reflect the considerations noted above. Eligible items embody new, cutting edge technologies, generally capturing less than 1 percent of market sales. Therefore, few of the credits would go for purchases that would have been made anyway. These top-tier technologies have substantial purchase prices and are not universally cost-effective, but offer superior energy efficiency compared to conventional equipment. For example, compared to typical units on the market, the eligible advanced air conditioning systems and electric heat pumps are 40 percent more efficient, and eligible electric heat pump water heaters and natural gas heat pumps are about twice as efficient. Eligible items are currently available. Energy efficiency standards are available for the eligible equipment so that items could be defined precisely enough for IRS to administer the credit.

Through 2008, we estimate that over 7 million taxpayers will purchase energy efficient equipment eligible for the credit. As noted above, eligible units are substantially more energy efficient than the typical units on the market.

Tax credit for new energy-efficient homes

Residences account for about one-sixth of US greenhouse gases and offer one of the largest sources of energy saving potential. Almost one million new homes and manufactured homes are built and sold each year. Some states and certain Federal programs require new houses to meet Model Energy Code standards for insulation and related construction standards, and for heating, cooling and hot water equipment. But the energy efficiency of new homes could be improved by 50 percent or more through the use of energy efficient building practices and more efficient heating and cooling equipment.

To encourage the purchase of new highly energy-efficient homes, a tax credit would be provided equal to one percent of the purchase price (up to a maximum credit of $2,000) of new homes that use at least 50 percent less energy for heating, cooling and hot water than the Model

Energy Code. The full credit would be available for homes purchased between January 1, 1999 and December 31, 2003, and would phase out in 2006. The revenue cost of this incentive is estimated to be $0.2 billion for FY 1999 - 2003.

Again, we have set a high threshold for eligibility for the credit. Eligible houses would be very energy efficient compared to present standards. Energy used in housing eligible for the credit would be reduced by 75 percent to 85 percent compared to existing housing and by over 50 percent compared to new housing.

Tax credit for rooftop solar systems

Solar energy systems, which accounted for .02 percent of electricity generation in 1996, have the potential to reduce greenhouse gas emissions and energy costs for businesses and individuals. The tax credit for the purchase of rooftop photovoltaic (PV) systems and solar water heating systems solar systems would make these systems more affordable and encourage their purchase. The credit would be 15 percent of qualified investment up to a maximum credit of $2,000 for PV systems and $1,000 for solar water heating systems. The credit would be available from January 1, 1999 to December 31, 2003 for solar water heating systems, and to December 31, 2005 for rooftop PV systems. The revenue cost of this incentive is estimated to be $0.1 billion for FY 1999 - 2003.

This tax initiative will help to achieve the President's goal of one million solar roofs by 2010. Heat and electricity produced from solar energy systems produce no greenhouse gases.

Industry

The proposed tax incentives for industry would promote energy efficiency by encouraging investments in combined heat and power systems that make effective use of energy that is otherwise wasted in producing electricity by more conventional methods. Tax credits are also provided to encourage the replacement of certain electricity circuit breakers that are prone to leak a potent greenhouse gas and the purchase of equipment that recycles certain greenhouse gases used in the semiconductor industry.

Tax credit for combined heat and power (CHP) systems

CHP systems use thermal energy that is otherwise wasted in producing electricity by more conventional methods. These systems increase energy efficiency, lower the consumption of primary fossil fuels and reduce carbon emissions as compared with conventional methods.

To encourage and accelerate investment in CHP equipment, a 10 percent tax credit would be provided for investments in CHP systems that meet certain energy efficiency requirements. A qualified system would be required to produce at least 20 percent of its total useful energy in the

form of both thermal energy and electric or mechanical power, and would have to meet certain efficiency standards. The credit would apply to property placed in service between January 1, 1999 and December 31, 2003. The revenue cost of this incentive is estimated to be $0.9 billion for FY 1999 - 2003.

Current cogeneration capacity is nearly 45 gigawatts. The credit should increase that capacity by about ten percent. Eligible CHP systems should reduce input energy requirements by about one-third compared to conventional systems. This saving is achieved by capturing the current waste heat that is created during the generation of electrical energy and using that waste heat in a thermal application. This saves fuel costs and generates fewer greenhouse gas emissions.

Tax credit for replacement of certain circuit breaker equipment

Certain older, large power circuit breakers used in the transmission and distribution of electric power are particularly prone to leak sulfur hexafloride (SF6). This equipment, using a dual pressure technology that was no longer produced after 1985, is particularly prone to leak as the seals corrode over time. The purpose of the tax incentive is to encourage utilities to replace the old equipment with new equipment. To prevent the old equipment from being sold to another utility in the US or abroad, the old equipment must be certified by an appropriate third party to have been destroyed.

To encourage the replacement of leaky circuit breakers, a 10 percent credit would be provided for the cost of new equipment. The credit would apply to new equipment placed in service between January 1, 1999 and December 31, 2003. The revenue cost of this incentive is estimated to be less than $50 million for FY 1999 - 2003.

Tax credit for perfluorocompound (PFC) and hydrofluorocarbon (HFC) recycling equipment

PFCs and HFCs are among the most potent greenhouse gases because of their extreme stability in the atmosphere and strong absorption of radiation. Because of the rapid anticipated growth of the semiconductor industry, the use of these gases is expected to grow at rates of 20 to 30 percent per year for the next ten years. A 10 percent tax credit would be provided for the purchase of equipment to recycle and recover PFCs and HFCs used in the production of semiconductors. The credit would apply to equipment placed in service between January 1, 1999 and December 31, 2003. The revenue cost of this incentive is estimated to be less than $50 million for FY 1999 - 2003.

These two tax credits are targeted toward emissions of very potent greenhouse gases that in some cases have atmospheric lifetimes of thousands of years and a global warming potential as much as several thousand times greater than carbon dioxide.

Transportation

The proposed tax initiatives in the transportation sector include tax credits for the purchase of highly fuel-efficient cars and light trucks, and an incentive to encourage public transportation and vanpools.

Tax credits for highly fuel efficient vehicles

Cars and light trucks (including minivans, sport utilities, and pickups) currently account for 20 percent of greenhouse gas emissions. Tax credits for highly fuel efficient vehicles will help to move vehicles that are ultra efficient from the laboratory to the highway. Thus this credit complements the research Partnership for a New Generation of Vehicles (PNGV program) that will develop a production prototype of a family car with three times the fuel economy of today's comparable car (about 80 miles per gallon) by 2003-2004.

Two tax credits would be provided:

- A $4,000 credit for a vehicle with triple the base fuel economy for its class. This credit would be available for purchases of qualifying vehicles beginning January 1, 2003. The credit amount would be phased down to $3,000 in 2007, $2,000 in 2008, and $1,000 in 2009, and would be phased out in 2010.

- A $3,000 credit for a vehicle with twice the base fuel economy for its class. The $3,000 credit would be available for purchases of qualifying vehicles beginning January 1, 2000. The credit amount would be phased down to $2,000 in 2004, $1,000 in 2005, and would be phased out in 2006.

These credits would be available for all qualifying vehicles, including cars, minivans, sport utility vehicles, pickup trucks, and electric vehicles. The revenue cost of this incentive is estimated to be $0.7 billion for FY 1999 - 2003.

Again, we have set a very high threshold for obtaining these credits. Eligible vehicles must be two or three times as efficient as today's comparable vehicles. Tripling a car's fuel economy reduces its emissions of carbon dioxide by 67 percent; doubling a car's fuel economy reduces its emissions of carbon dioxide by 50 percent.

Equalize the tax treatment of parking and transit benefits

Under present law, qualified transportation fringe benefits provided by an employer are excluded from income. Qualified transportation fringe benefits include parking, transit passes, and vanpool benefits. Beginning in 1998, parking is excludable from gross income even when provided in lieu of other compensation payable to an employee. Transit passes and vanpool

benefits, however, are only excludable if provided in addition to, and not in lieu of, any compensation otherwise payable to an employee. In 1998, the amount of employer-provided benefit that is excludable from income per month is $175 for parking and $65 for vanpool and transit benefits.

This initiative would equalize the tax treatment of parking benefits and transit and vanpool benefits. To encourage public transportation and vanpools, employers would be allowed to provide tax free transit and vanpool benefits in lieu of compensation, up to the same amount that they can provide for parking beginning January 1, 1999. The revenue cost of this incentive is estimated to be $0.1 billion for FY 1999 - 2003. A similar provision is contained in the Surface Transportation Revenue Act of 1998.

Electricity

Extension of tax credit for electricity produced from wind and biomass

Wind energy systems accounted for about .09 percent of electricity generation in 1996. What is deployable today is the result of successful R&D in the past. To encourage the production of electricity from wind and certain biomass, a 5-year extension is proposed for the present 1.5 cent per kilowatt hour tax credit (adjusted for inflation after 1992). The present credit, which applies to facilities placed in service before July 1, 1999, would be extended for five years. The revenue cost of this incentive is estimated to be $0.2 billion for FY 1999 - 2003.

This tax credit helps to make electricity from these systems competitive with other forms of electricity generation. Electricity produced from wind energy systems produces no greenhouse gases.

CONCLUSION

Our goal has been to design a package of tax incentives to achieve reductions in greenhouse gases and to increase energy efficiency. The tax incentives have well-defined goals. Eligible items offer superior energy efficiency, use renewable energy sources, or reduce emissions of some of the most potent greenhouse gases. If taxpayers claim a credit, it is for items that produce energy savings and reductions in greenhouse gas emissions. If taxpayers do not take advantage of the credits, there is no revenue loss.

The impact of the incentives in this package on greenhouse gases will likely increase significantly in the years beyond the ten-year budget window, and those distant effects, by their very nature, are the most difficult to predict. That is why the Administration has chosen not to make speculative estimates about the potential benefits. I would like to illustrate this point with one example. I stated earlier, with respect to the tax credit for highly energy-efficient building equipment, that the affected equipment presently captures less than one percent of market sales.

With the credit in place, we expect this fraction to increase significantly in the short-run. We also expect that after the credit has expired the share of the market for highly efficient building equipment will be much larger as a result of the credit. But whether it will double, or triple, or increase by a factor of 10 is unclear. The estimated impact on emissions reductions will hinge on assumptions about the long-term increase in market share which is very difficult to predict.

In conclusion, Mr. Chairman, we believe that the Administration's proposed tax incentives represent sound policy that will have long-term benefits. We look forward to working with the Congress on this matter.

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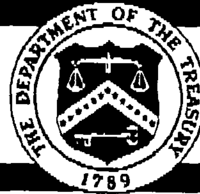
DEPARTMENT OF THE TREASURY

TREASURY  NEWS

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FOR IMMEDIATE RELEASE
Remarks as Prepared for Delivery
April 24, 1998

Treasury Assistant Secretary for Financial Markets Gary Gensler to the President's Commission to Study Capital Budgeting

Good morning. I would like to thank the Commission for inviting me here today. I would also like to introduce Roger Anderson, Deputy Assistant Secretary for Federal Finance. Before he joined Treasury, Roger was Deputy Comptroller for Finance for The City of New York, where he had extensive experience in municipal finance.

I will begin by describing the goals and principles that guide Treasury debt management. Then, I will discuss municipal finance and its use of capital budgeting. After laying that groundwork, I will make some comparisons between Federal and municipal finance. Lastly, I will turn to the question at hand, whether the methods utilized by many municipalities to finance capital budgets could be adapted and incorporated into the Federal Government's debt management.

Treasury Debt Management

Treasury debt management has three principal goals. The first is sound cash management -- assuring that Treasury cash balances are sufficient at all times. The second is achieving the lowest cost financing for the taxpayers. And the third is the promotion of efficient capital markets.

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

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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.

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.

To promote the goals and to follow the principles that I've just described, Treasury employs unitary financing. That is to say, we aggregate all of our financing needs and borrow for one account. While we have many internal accounts, all cash receipts and payments and all borrowings are made through the Treasury. Debt proceeds are not earmarked or segregated. They are used interchangeably with tax receipts to fund all the activities of government operating expenses, refunding of maturing debt, and funding of capital expenses.

<u>Municipal Finance</u>

Let me now turn to the world of municipal finance. Many of you are more familiar than I am with municipal finance. Let me outline a number of issues, however, as I understand them.

The majority of states, as well as many localities, have two budgets: an operating budget and a capital budget. Operating budgets are funded by tax and other revenues and are used to fund operating expenses. Typically, state laws or constitutions require operating budgets to be balanced every year. Some states are required to have their operating budgets balanced as proposed or enacted. Others are required to take steps to insure that their operating budgets are in balance at the end of each fiscal year.

Capital budgets are used to fund capital projects, as defined by state and local laws and are usually funded with bond proceeds. Capital spending, therefore, is not directly included in operating budgets. The principal on the debt is usually amortized and debt service (both principal and interest) is treated as an operating expense.

Capital budgets allow municipalities to finance multi-year projects outside the annual balance constraints of their operating budgets. Capital budgets are not required to be balanced each year. Debt issued to finance the capital budgets, however, is generally subject to caps. These caps often cannot be changed except by voter referendums. In addition, debt issued to fund

capital construction typically cannot have a maturity beyond the expected useful life of the project being constructed.

The municipal bond market has numerous different instruments. General obligation bonds are backed by the taxing authority of a jurisdiction. Revenue bonds are backed by a particular revenue stream, either from a lending authority or a specific project. Among the many types of lending authorities, the most common include: Water & Sewer authorities, Housing authorities, and Public Utility authorities. To meet seasonal borrowing needs, municipalities also issue Anticipation notes backed by future tax, grant, or other revenues.

Comparison of Federal and Municipal Finance

As I have outlined, there are many differences between Federal Finance and municipal finance. As I noted earlier the three goals of Federal finance are (i) sound cash management, (ii) lowest cost financing, and (iii) the promotion of efficient capital markets. While States and municipalities share the first two of these goals, they pursue them in a legal framework that does not apply to the Federal Government. In addition, we have a unique role in the promotion of efficient capital markets.

The market for U.S. Treasury securities is the deepest, most liquid, most efficient market in the world. Last year, Treasury issued $2.2 trillion of securities. In contrast, gross issuance in the municipal market was approximately one tenth of this volume. Treasury securities appeal to the widest array of investors spanning the globe. Municipal securities appeal to a narrower range of investors, those domestic investors able to take advantage of the tax characteristics of these securities.

Conclusion

As outlined earlier, the most significant difference between Federal and Municipal finance is that we employ unitary financing for the federal government. Unitary financing allows us to best meet our goals and abide by the principles previously outlined. Through unitary financing, we are able to issue large liquid issues across the yield curve. Through unitary financing, we are able to be consistent and predictable. Through unitary financing, we preserve the "risk free" status of Treasury securities.

Municipalities use segregated financing largely due to the legal framework in which they finance. In addition, many municipal bond investors seek diversification through owning bonds issued by different authorities. These factors are not relevant to the Federal Government.

It may be interesting to share with the Commission a particular aspect in the history of Federal finance. Prior to 1973, the Federal Government actually had multiple issuing authorities.

In this environment, many federal agencies issued their own securities to fund their programs. At the time, we had agencies competing in the market with each other and with the Treasury. This led to an inefficient use of Federal credit. Federal agency debt and federally guaranteed debt carried higher interest rates than that issued by the Treasury, sometimes carrying interest as much as two percentage points higher than on comparable Treasury securities.

To address these concerns, the Treasury requested that Congress create the Federal Financing Bank. All agencies are now required to borrow from the Federal Financing Bank and no longer issue securities directly to the market. This allows the various programs to be financed at the Treasury's lower cost of funds. This important innovation in federal finance was actually initiated by a young Treasury official named Paul Volcker. He later went on to hold a slightly more important post for the nation.

In conclusion, while there may be aspects of capital budgeting that are applicable to the Federal Government, we do not believe that this would include any form of segregated financing.

We would now be happy to answer any questions that you may have.

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FOR IMMEDIATE RELEASE
June 8, 1998

CONTACT: Paul Elliott
(202) 622-2960

TREASURY CALLS FOR LARGE POSITION REPORTS

The Treasury is calling for Large Position Reports from those entities whose reportable position in the 5½% Treasury Notes of February 2008 equals or exceeds $2½ billion as of close of business Friday, June 5, 1998. This call for Large Position Reports is a test. Entities with reportable positions in this 10-year note equal to or exceeding this $2½ billion threshold must report these positions to the Federal Reserve Bank of New York. Entities with reportable positions below $2½ billion are not required to file Large Position Reports. Reports, which must include the required position and administrative information, must be received by the Market Reports Division of the Federal Reserve Bank of New York before noon Eastern time on Friday, June 12, 1998. Large Position Reports may be filed by facsimile at (212) 720-8028 or delivered to the Bank at 33 Liberty Street, 4th floor.

Details on Call for Large Position Reports

Security Description:	5½% Treasury Notes of February 2008, Series B-2008
CUSIP Number:	912827 3X 8
CUSIP Number of STRIPS Principal Component:	912820 CQ 8
Maturity Date:	February 15, 2008
Date for Which Information Must Be Reported:	June 5, 1998 as of COB
Large Position Reporting Threshold:	$2½ Billion (Par Value)
Date Report Is Due:	June 12, 1998, before noon Eastern time

This call for large position information is made under Treasury's large position reporting rules (17 CFR Part 420). The notice calling for Large Position Reports is also being published in the Federal Register. This press release and a copy of a sample Large Position Report, which appears in Appendix B of the rules at 17 CFR Part 420, can be obtained from Treasury's automated fax system by calling (202) 622-2040 and requesting document number 2494. These documents are also available at the Bureau of the Public Debt's Internet site at the following address: http://www.publicdebt.treas.gov.

Questions about Treasury's large position reporting rules should be directed to Public Debt's Government Securities Regulations Staff at (202) 219-3632. Questions regarding the method of submission of Large Position Reports may be directed to the Market Reports Division of the Federal Reserve Bank of New York at (212) 720-8021.

RR-2494

Appendix B to Part 420 - Sample Large Position Report.
Formula for Determining a Reportable Position
($ Amounts in Millions at Par Value as of Trade Date)

Security Being Reported: ____________
Date For Which Information is Being Reported: ____________

1. Net Trading Position $__________
(Total of cash/immediate net settled positions; net when-issued positions; net forward positions, including next day settling; net futures contracts that require delivery of the specific security; and net holdings of STRIPS principal components of the security.)

2. Gross Financing Position + $__________
(Total of securities received through reverse repos (including forward settling reverse repos), bonds borrowed, collateral for financial derivative transactions and for other securities transactions which total may be reduced by the optional exclusion described in § 420.2(c).)

3. Net Fails Position + $__________
(Fails to receive less fails to deliver. If equal to or less than zero, report 0.)

4. TOTAL REPORTABLE POSITION = $__________

Memorandum: Report one total which includes the gross par amounts of securities delivered through repurchase agreements, securities loaned, and as collateral for financial derivatives and other securities transactions. Not to be included in item #2 (Gross Financing Position) as reported above.

$__________

Administrative Information to be Provided in the Report

Name of Reporting Entity:
Address of Principal Place of Business:
Name and Address of the Designated Filing Entity:
Treasury Security Reported on:
CUSIP Number:
Date or Dates for Which Information Is Being Reported:
Date Report Submitted:
Name and Telephone Number of Person to Contact Regarding Information Reported:

Name and Position of Authorized Individual Submitting this Report (Chief Compliance Officer; Chief Legal Officer; Chief Financial Officer; Chief Operating Officer; Chief Executive Officer; or Managing Partner or Equivalent of the Designated Filing Entity Authorized to Sign Such Report on Behalf of the Entity):

Statement of Certification: "By signing below, I certify that the information contained in this report with regard to the designated filing entity is accurate and complete. Further, after reasonable inquiry and to the best of my knowledge and belief, I certify: (i) that the information contained in this report with regard to any other aggregating entities is accurate and complete; and (ii) that the reporting entity, including all aggregating entities, is in compliance with the requirements of 17 CFR Part 420."

Signature of Authorized Person Named Above:

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EMBARGOED UNTIL 8:30 pm
Remarks as Prepared for Delivery
June 4, 1998

Secretary Robert E. Rubin
Washington International Trade Association
Washington, DC

It is a pleasure to be with you tonight and to be honored alongside Senator Roth, who has been a strong advocate for free trade and America's leadership in the global economy. I have worked closely with Senator Roth on a number of important domestic and international issues and he has shown real leadership on a broad array of such issues. By honoring me, you honor President Clinton's entire 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 deeply understands 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.

Yet at a time when our country's economic, national security and geopolitical interests require forward looking international economic policies, public support for such policies may be waning. At the end of last year, for example, Congress failed to grant the President fast track trading authority, even though we risk being left behind as other countries liberalize trade and investment without the United States, failed to approve payment of our dues to the United Nations, even though we risk losing our vote in the General Assembly by the end of this year, and failed to provide funding for the IMF, even though the resources of the IMF are dangerously low as a result of the recent financial crisis in Asia.

Tonight, I want to speak about the importance of building support for forward-looking international policies. The context for my discussion is the emergence of a global economy, which has brought tremendous benefits for workers and businesses, but which has also produced risks and challenges -- challenges that can only be met by spreading the benefits of the global economy and bolstering support for forward looking international policies.

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the effort to contain Communist expansionism. In this new environment, questions concerning the importance of U.S. leadership have grown.

A great task facing this country today is to rebuild public support for forward looking international policies. Doing so requires meeting two basic challenges.

First, is broadening participation in the benefits of the global economy. The global economy benefits most, but there is a risk that those who are not well-equipped to compete will fall behind. Moreover, the rapid changes of the global economy inevitably create dislocations for some. But the answer to these problems is not a futile effort to try to halt the incredible tide of globalization that has benefited so many. Instead, the answer is to continue to strengthen a domestic counterpart to a forward looking international economic policy that helps to equip all of our people to compete in the global economy, through education and training, special programs for those outside the economic mainstream in our inner cities and distressed rural areas, health care, and the like.

Early in the first term of the Clinton Administration, a reporter from a well-respected European newsmagazine interviewed me. At the end, he said that our economy was doing very well but that ten or twenty years from now we'd be a second tier economy. I said I disagree, but asked why he thought that, and he said because of the state of our public schools and our inner cities. And I believe that these are critical issues that, particularly at a time when the U.S. economy is doing well, we must address.

The second critical challenge we face is to vastly improve the efforts of 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 and national security of the American people.

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 in the General Assembly at the end of this year; we will fail to support the IMF, and be more vulnerable to economic crises; and we will fail to pass fast track and 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.

Here's where business can play an important role -- you have the understanding of the importance of the global economy and the means with which to convey that understanding. Our leadership in the global economy must be grounded in public support, and what we all need to do is build that public support.

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FOR IMMEDIATE RELEASE
June 5, 1998

Contact: Kelly Crawford
(202) 622-2960

SECRETARY RUBIN TRAVELS TO AFRICA IN JULY

Treasury Secretary Robert E. Rubin will travel to Africa in July to advance President Clinton's Partnership for Economic Growth and Opportunity by addressing important financial sector issues. The Secretary plans to travel to Ivory Coast, South Africa, Mozambique and Kenya July 10-19.

Secretary Rubin has noted the United States' shared interest in African growth and development. "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," Rubin said. "It is also very much in America's economic and national security interest. That is why we must now come together to meet our respective challenges."

During the trip, Secretary Rubin will seek to establish closer working relationships with several African countries working to reform their economies and learn more about problems confronting these reform efforts, particularly the obstacles to establishing more effective financial markets in Africa. In addition, the delegation will explore ways in which the international financial institutions, the Treasury Department and the private sector can assist in the development of financial markets and support more effective African regional integration. The Secretary will also discuss efforts to combat money laundering, encourage micro credit finance and improve economic governance.

To support the objectives of the mission, the delegation will include a limited number of executives from private U.S. financial institutions, such as representatives of money management firms, commercial banks and investment banks. We anticipate this group would engage representatives of African governments and the African private sector to consider ways the financial sector can support faster growth in Africa and stronger investment relations with the United States.

Private sector representatives interested in being considered for inclusion in this limited group should contact Sarah Fordney, Office of Business and Public Liaison at (202) 622-1660. Consideration of private sector representatives for this trip will begin Friday, June 5, and conclude Friday, June 12. Private sector representatives will be responsible for their own travel expenses.

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Monthly Release of U.S. Reserve Assets

June 5, 1998

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

As indicated in this table, U.S. reserve assets amounted to $ 70,722 million at the end of May 1998, up from $ 70,328 million in April 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						
April	70,328r	11,048r	10,188	13,821	17,053	18,218
May	70,722p	11,048p	10,296	13,514	16,907	18,957

1/ Valued at $42.2222 per fine troy ounce.

2/ Beginning July 1974, the IMF adopted a technique for valuing the SDR based on a weighted average of exchange rates for the currencies of selected member countries. The U.S. SDR holdings and reserve position in the IMF also are valued on this basis beginning July 1974.

3/ Includes allocations of SDRs by the IMF plus transactions in SDRs.

4/ Includes holdings of Treasury and Federal Reserve System; beginning November 1978, these are valued at current market exchange rates or, where appropriate, at such other rates as may be agreed upon by the parties to the transactions.

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EMBARGOED UNTIL 2:30 P.M.
June 9, 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 June 18, 1998. This offering will result in a paydown for the Treasury of about $1,225 million, as the maturing publicly held weekly bills are outstanding in the amount of $14,235 million.

In addition to the public holdings, Federal Reserve Banks for their own accounts hold $6,549 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 $2,413 million as agents for foreign and international monetary authorities, which may be refunded within the offering amount at the weighted average discount rate of accepted competitive tenders. Additional amounts may be issued for such accounts if the aggregate amount of new bids exceeds the aggregate amount of maturing bills.

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

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

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Attachment

RR-2499

HIGHLIGHTS OF TREASURY OFFERINGS OF WEEKLY BILLS
TO BE ISSUED June 18, 1998

June 9, 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 4Z 4	912795 AU 5
Auction date	June 15, 1998	June 15, 1998
Issue date	June 18, 1998	June 18, 1998
Maturity date	September 17, 1998	December 17, 1998
Original issue date	September 18, 1997	June 18, 1998
Currently outstanding	$29,279 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

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EMBARGOED FOR RELEASE AT 1:30 P.M. EDT
June 8, 1998

"Equity in a Global Economy"
Remarks by Lawrence H. Summers
Deputy Secretary of the Treasury
International Monetary Fund
Washington, DC
June 8, 1998

It was 150 years ago this year that Marx and Engels wrote the Communist Manifesto. They turned out to be wrong in a number of respects. But they were surely right to stress the enormity of the change in human affairs that a global market economy would represent. It would be difficult to think of a time when the "colossal productive forces" of capitalism they wrote about have been more palpable -- to more of the world's peoples.

When history books are written about the last two decades of this century, it is possible that the end of Soviet-style communism will be the second story. The first story could well be the appearance of emerging markets -- the fact that developing countries where more than three billion people live have moved to embrace capitalism. And for the first time in human history, living standards for huge populations have quadrupled or more in a single generation.

Few doubt that a global economy based on market forces offers enormous potential. In different ways -- our sense of ideology, our sense of common interests, our sense of what promotes global stability -- all point us toward a world of changing technologies, increased market forces and increased globalization. There is no question that this is good for many and good for the size of the pie. But there is a real question as to whether it leaves too many people behind.

This is an important moral issue and an important issue for the political viability of this approach -- because, as we are learning, wherever economic reality lies, it will be that much more difficult to follow if too many people doubt that it works for them. Necessarily, it presents itself differently in developed and developing countries:

- in developing countries, the question is whether the adoption of market-based approaches can support rapid growth, but only at the cost of rising inequality and harsh adjustment programs that impose excessive costs on the poor and vulnerable.

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- in developed countries, the issue is less about the merits of markets than about globalization -- and the fear that it poses a threat to the well-being of the less skilled that cannot be countered by sound domestic policies.

- finally, and at the broadest international level, there is the belief that the mobility of capital, and the leverage which that mobility provides, affords it too much leverage and democratic governments too little -- to the detriment of ordinary people everywhere.

I would like today to offer some observations about these critical issues and the best way that policy makers might seek to address them going forward.

I. Does market-led development breed inequality?

Forty years ago Simon Kuznets suggested there was a negative relationship between growth and income equality in the early stages of development, and for a long time that proposition went unchallenged. Partly as a result, the belief persisted that growth with equity was impossible -- and that development and poverty reduction could often be at odds. Time, and a mountain of empirical evidence has given ever weaker support for these claims.

First -- as Klaus Deininger and Lyn Squire have shown in recent work at the World Bank -- more rigorous empirics and better data, covering 91countries over more than 30 years, suggests scant evidence of a Kuznets-type rise in inequality over the early stages of growth. Indeed, periods of rapid growth have come with a rise in income equality at least as often as a decline.

Second, we have seen enormous reductions in poverty as a result of rapid growth. Consider Japan, or the "Asia Tigers", or China and Vietnam -- all cases in which many millions were lifted out of poverty in scarcely a decade. Once again, the World Bank evidence is powerful: Deininger and Squire found that growth produced rising incomes for the bottom fifth of the population in all but 15 percent of the economies represented.

Third, we have seen rising evidence that, far from being the handmaiden of growth, certain kinds of inequalities can actively impede it. Specifically, there seems to be quite a strong negative link between a highly unequal starting distribution of assets and subsequent rates of growth. Of the 15 developing countries with the most unequal distribution of land in the Bank sample -- only two grew by more than 2.5 percent a year between 1960 and 1992.

The bottom line for policy makers is that we now know that no given path of inequality is an unavoidable consequence of macroeconomic adjustment and market reform. Just as government has enormous power to shape how fast a society grows -- it has enormous scope to influence how equitably it grows. The challenge is to put in place policies and institutions that will not just increase the size of the pie but help include more in its benefits.

Eight years ago when John Williamson first summarized the gospel according to Washington, there was a place on the list for the re-ordering of public spending priorities away from

unproductive expenditures -- and into win-win investment in basic education and social services and critical infrastructure.

This element of the Washington Consensus has not entirely fallen by the wayside in the course of market reforms in Latin America, the Former Soviet Union, and elsewhere. But if most now agree that macroeconomic reforms took precedence over microeconomic in the earlier stages of reform, and reducing the size of government took precedence over improving its quality -- then it is fair to say that education and other basic social investments were especially ill-served by these biases.

Today, the lessons about the links between equity and growth find deeper expression in the policies of the International Financial Institutions -- policies which increasingly recognize that austerity is no substitute for adjustment. We see this:

- in the IMF's increased emphasis on the needs of the poor in designing adjustment programs, and encouraging governments to improve the quality of public spending and shift more resources to primary education, health care and critical investments. Since 1990 military spending has declined from 5.5 percent to 2.2 percent of GDP in IMF program countries and has declined as a share of public spending while social spending has risen;

- and in the sharply increased shares in social lending of the development banks. The World Bank, for example, is now the single largest source of external financing for education in developing countries. Since 1980 its lending for education has tripled and education's share in the total has more than doubled.

I am confident that whatever consensus exists ten years from now will give more weight still to these issues. But there should continue to be a presumption that issues of poverty and equality are best addressed directly, rather than indirectly, through more pervasive forms of protection, intervention and state controls.

That means, above all, investing in education. In 1990 around 130 million primary-school age children were not enrolled in a school, 60 percent of them girls. Yet years of development history show us that a dollar spent on education pays for itself many times over -- and a dollar toward female education most of all, in reduced fertility, healthier populations and higher wages.

And it must mean working to democratize access to finance. The world over, private financial markets fail when it comes to the very poor. Yet if you deprive poor people of the chance to lend or save then they are a good deal more likely to stay that way. The success of micro credit institutions the world over -- from South Africa to South Central -- shows how much can be achieved here, at what small cost. The First Lady likes to say it takes a village to raise a child. Equally, it takes capital to build a prosperous and cohesive village.

II. Does Integration Impoverish the Unskilled?

For all the dramatic rise in integration we have seen in the past decade, the share accounted for by imports from low-wage countries has increased by only one and a half percentage points. In the last 30 years, it has risen by only about three percent of GDP.

Compare that to the eight percentage point rise in the share of health care that has occurred during that period; to the 11 percentage point rise in the female share of the workforce; to changes in the levels of education attainment and in the mix of occupations due to changing technology -- and it is difficult to believe that increased trade with developing countries could account for more than a fraction of the rise in wage inequality we have seen in the United States in the past twenty years. In fact, most studies have concluded that it could account for 10 -- perhaps 20 -- percent of the problem.

Yet to absolve globalization from the blame will not make the problem of rising inequality go away. And it is scarcely a phenomenon that is now well understood.

My guess is that it has its roots in two primary trends. First, technologies that have tended to be skill-reinforcing, and second, greater market forces that have tended to make everyone be paid more like salesman -- on the basis of what they produce. The implication is that the dispersion of wages within a given occupation or company may have moved closer toward that of people who are paid on commission. Differing tax and benefit structures and labor market institutions in Europe have seen these things manifest themselves in higher unemployment more than rising inequality. But it seems clear that similar underlying forces have been at work.

Will these trends continue? No one should forecast confidently. When I went to graduate school two propositions in this area were central. The first was that the returns to education were declining, Americans were in danger of becoming over-educated and social investment in education could be excessive. The second was that the income distribution was remarkably stable in postwar America, despite a whole set of policies directed at addressing it.

These were mistakes of extrapolation. One needs to be careful about extrapolating from the last 20 years. While the bulk of attention has focused on skill-reinforcing technologies, and while these are clearly a major element of the story, it is worth noting that supermarket scanners, spell-checkers, cash registers with pictures instead of numbers -- all these are information technologies that reinforce those with less skill. Equally, computers will replace radiologists reading X-rays before they replace nurses. Equity traders will be replaced before gardeners -- credit analysts before hairdressers.

Nor can the march of market forces in compensation be thought to be ineluctable. Just as countries, in a world in which everything else moves, are coming to realize that their most unique asset is their people, so companies, in a world in which everything, including their people, can move, are coming to realize that their most distinctive resource is their culture. With teamwork

an increasingly important value in business, companies are recognizing the benefits of a loyal workforce -- and likewise the possible costs to downsizing and invidious comparisons between personnel.

We should note, too, that the last two years have shown some signs, if not of a reversal, then at least of an important pause in the long-run trend here in the United States. Between 1996 and 1997 the hourly wages of the bottom fifth of US workers rose by 3.2 percent in real terms -- more than twice as fast as the wages of those at the top.

As in the developing countries, governments are not powerless. It is a feature of the successful move to more market-based strategies that all of the elasticities have increased -- small changes in incentives can reap very large changes in behavior, and the burden of a given intervention can shift far from the initial target. That means that the deadweight losses associated with direct redistributions have increased. But it also enhances the effectiveness of more supply-based strategies for reducing inequality.

This has been reflected in a much greater emphasis on the quality and quantity of education, including -- in this country -- a major expansion in pre-school programs, proposals for universal testing to maintain school performance and expanded college tax subsidies. Equally we have seen it in a welfare reform bill which stresses both motivating greater work effort and improved preparation for work.

III. Are Governments Powerless Before a Global Market?

It is often said that governments today have less power, but in a sense they hold a society's fate in its hands more than ever before. The right policies are now better reinforced and the wrong policies are more swiftly punished. Thus, the impact of policies has never been greater. The element of truth in this statement about the powerlessness of governments is that certain things thought important for government to do are becoming more difficult.

There is no question that increased economic integration -- be it of the 50 American states, the European Union or other less well-developed regional trade arrangements --- requires a careful balancing act between the benefits of mobility and competition within jurisdictions, and the need to avoid a damaging race to the bottom.

The implication is that the plane of global integration cannot fly on the single wing of freer trade and capital mobility. It must be complemented by the second wing of global cooperation on the range of challenges that integration brings -- from fair treatment of labor to global warming, from preventing money laundering to food safety and other consumer protections.

As President Clinton said last month at the 50th Anniversary of the WTO in Geneva, our goal as we integrate and converge must be leveling up, not leveling down:

> that is why we are working to open up the WTO to ensure that capital is not the only

factor of production that gets a hearing;

- that is why we are working with other countries to promote global cooperation against corporate and legal tax havens, and working actively in the OECD on the issue of tax competition;

- that is why we have worked, within the IMF and the other IFIs to ensure that labor and environmental concerns are given due weight in devising reform programs and sustainable development strategies -- and why we have called on the WTO to step up its environment efforts and work with the International Labor Organization to ensure that open trade respects the rights of workers;

- and that is why we have given such strong encouragement to the World Bank and the IMF in their efforts to place governance issues at the top of their agenda, and have worked at the OECD to attack the supply-side of corruption with the criminalization of foreign bribes.

These are all international imperatives. But the vital domestic complement to this approach must be ensuring that the global economy works well for those at home. Just as the GI Bill of Rights was an integral part of the strategy behind the Marshall Plan, just as our interstate highway system was partly the result of an effort to marshal our Cold War defenses -- we must work to make both real and apparent the connection between our pursuit of stability and prosperity abroad and our pursuit of stability and prosperity for every American.

These are important issues substantively and they are also important issues politically. Indeed, it may well be that the biggest threat to our national security is economic insecurity -- and the backlash it produces at home.

So this conference could not be more timely or subject more important. History teaches that internationalism cannot be a goal pursued by elites for its own sake. Domestically and collectively, we need to invest in policies and institutions that can realize the opportunities of this new global era, and a large part of that will be about investing in policies to ensure that everyone is included. You might say -- as Marx did not -- that we have nothing to lose but the false choice between growth and equity, and a world to win. Thank you.

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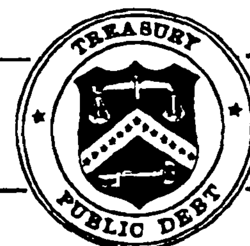
PUBLIC DEBT NEWS



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

TREASURY SECURITY AUCTION RESULTS
BUREAU OF THE PUBLIC DEBT - WASHINGTON DC

FOR IMMEDIATE RELEASE
June 08, 1998

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Term:	91-Day Bill
Issue Date:	June 11, 1998
Maturity Date:	September 10, 1998
CUSIP Number:	912795AJ0

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate 1/	Price
Low	4.980%	5.114%	98.741
High	5.000%	5.135%	98.736
Average	4.995%	5.131%	98.737

Tenders at the high discount rate were allotted 14%.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 31,644,787	$ 3,871,687
Noncompetitive	1,239,138	1,239,138
PUBLIC SUBTOTAL	32,883,925	5,110,825
Foreign Official Refunded	689,101	689,101
SUBTOTAL	33,573,026	5,799,926
Federal Reserve	3,291,780	3,291,780
Foreign Official Add-On	155,999	155,999
TOTAL	$ 37,020,805	$ 9,247,705

Bid-to-Cover Ratio = 32,883,925 / 5,110,825 = 6.43

1/ Equivalent coupon-issue yield.

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PUBLIC DEBT NEWS

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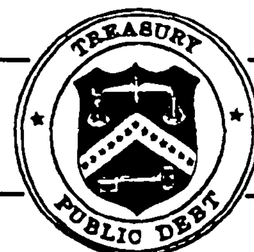

TREASURY SECURITY AUCTION RESULTS
BUREAU OF THE PUBLIC DEBT - WASHINGTON DC

FOR IMMEDIATE RELEASE
June 08, 1998

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Term:	182-Day Bill
Issue Date:	June 11, 1998
Maturity Date:	December 10, 1998
CUSIP Number:	9127945C4

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate 1/	Price
Low	5.140%	5.351%	97.401
High	5.155%	5.366%	97.394
Average	5.155%	5.366%	97.394

Tenders at the high discount rate were allotted 82%.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 26,859,795	$ 4,319,965
Noncompetitive	1,143,389	1,143,389
PUBLIC SUBTOTAL	28,003,184	5,463,354
Foreign Official Refunded	1,826,783	1,826,783
SUBTOTAL	29,829,967	7,290,137
Federal Reserve	3,845,000	3,845,000
Foreign Official Add-On	413,217	413,217
TOTAL	$ 34,088,184	$ 11,548,354

Bid-to-Cover Ratio = 28,003,184 / 5,463,354 = 5.13

1/ Equivalent coupon-issue yield.

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PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
June 9, 1998

Contact: Peter Hollenbach
(202) 219-3302

BUREAU OF THE PUBLIC DEBT AIDS SAVINGS BONDS OWNERS AFFECTED BY TORNADOES IN SOUTH DAKOTA

The Bureau of Public Debt took action to assist victims of tornadoes in South Dakota 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 South Dakota affected by the storms. These procedures will remain in effect through July 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.

South Dakota counties involved are Clark, Day, Hanson, Marshall, McCook and Spink. 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 Avenue, Minneapolis, MN 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.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED UNTIL 9 P.M. EDT
Remarks as Prepared for Delivery
June 9, 1998

TREASURY SECRETARY ROBERT E. RUBIN
INSTITUTE FOR EAST WEST STUDIES
WALDORF ASTORIA HOTEL
NEW YORK CITY

It is a pleasure to be with you tonight to honor three men from different countries and backgrounds, but who are all working to transform their respective nations into stable, prosperous, democracies.

President Constantinescu was elected at a time of profound political and economic challenges in Romania. He has worked tirelessly over the past 18 months for economic and political reform and transformation in Romania so that Romania may take its place among the growing economies of the region. President Constantinescu has also been an effective advocate of inclusion within the political process.

President Shevardnadze is a man of extraordinary vision and has shown great personal courage in his efforts to create a prosperous and democratic Georgia. President Shevardnadze has had to lead his country back from abject economic collapse resulting from the ethnic and civil strife that accompanied Georgia's re-birth as a nation. Under his leadership, Georgia has become one of the few countries of the former Soviet Union that can boast of strong growth, low inflation, and a democratic government.

And Mr. Alekperov is a business leader whose company--LUKOil-- offers a good example of the benefits that Russia can derive from one critical area of reform, the privatization of state-owned enterprises in the energy sector. His company has demonstrated foresight and business acumen in setting up constructive partnerships with Western firms that will help LUKOil develop Russia's natural resources.

Now, I would like to expand briefly on the opportunities and challenges presented by the transition of the economies of Central Europe and the former Soviet Union and what the rest of the world, especially the United States, can and should do to help them.

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The ongoing transition of these nations is an unprecedented event in global economic and political history. These are countries attempting a peaceful revolution: the fundamental transformation from one political and economic system -- authoritarianism and state-planned economies -- to another -- democracy and free market economics. Although progress varies from nation to nation, we all should acknowledge the tremendous gains that have been made from where these nations started, while at the same time recognizing the enormity of the challenges ahead.

This transformation is very much in the economic and national security interest of the United States. In the course of less than a decade, the East-West enmity has ended, replaced by economic and political cooperation which hold great promise for the people of both Eastern and Central Europe and the United States.

However, the transition of these countries is far from complete. The nations that took the largest steps towards reform early on, such as Poland, Hungary and the Czech Republic, are the nations that are now performing best. Others have moved more slowly and are not doing as well. But all face difficult challenges ahead in continuing on the path of reform. Georgia and Romania, for example, both face tremendous challenges in building an environment in which private enterprise can flourish.

At the same time, the financial crises in Asia have buffeted Central and Eastern Europe, including Russia, making the challenge of economic reform all the more difficult. With the situation in Russia currently receiving much attention, let me make a couple of overarching points.

First, Russia's recent financial turmoil and continuing problems should not divert attention from the key, which is to continue building on the reform that Russia has already made. That means implementing further fiscal reforms, including revision of the tax code and effective tax collection, completing the privatization program, strengthening the banking sector, strengthening property rights (such as for land), rationalizing the regulatory system, and very importantly combating corruption.

Second, the United States has a strong stake in Russia's economic success. That success would increase Russia's market for our exports, would prompt political stability and political reform and thus our national security, and would contribute to economic growth and political stability in the region.

At a time when so many developing and transitioning countries around the world are turning to democracy and free market economics, the United States has a critical leadership role to play in helping these countries. Yet I am deeply concerned that public support for forward-looking international economic policies may be waning at a time when our country's economic, national security and geopolitical interests require exactly the opposite. At the end of last year, for example, Congress, failed to provide funding for the International Monetary Fund, even though the resources of the IMF are dangerously low as a result of the recent financial crisis in Asia, failed to grant the President fast track trading authority, and we are now being left behind

as other countries liberalize trade and investment without the United States, and failed to approve payment of our arrears on dues to the United Nations, and we will lose our vote in the General Assembly by the end of this year if these arrears are not paid.

In recent years, we have seen both an erosion of the traditional bi-partisan 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. This has occurred for at least two reasons: anxiety brought by the rapidity of change in this era of the global economy and dramatic technological developments; and the end of the Cold War, which caused the foreign policy consensus to lose its centerpiece -- the effort to contain Communist expansionism.

The response to all of this, however, ought not to be to turn inward, or to futilely try to dismantle the global economy that has benefited so many. Instead, the response should be for the United States -- and all nations -- to provide education and training to equip citizens with the tools to prosper in the global economy; to help the dislocated re-enter the economy successfully quickly and successfully; and to provide an appropriate social safety net.

At the same time, all of us -- public sector officials, the business community, and foreign policy experts-- must work to build broad public understanding of the importance to our economic well being and national security interests of strong U.S. interests of strong U.S. leadership in the global economy. Leadership in the global economy must be grounded in public support for the leadership at home.

And it is critically important that Congress now approve our contribution to the International Monetary Fund. As I said a moment ago, the IMF does not have sufficient funds to deal with a truly major crisis, for example, if the Asian crisis were to worsen or if a new crisis were to develop. Although the probability of such events occurring is low, the effects of such events would be severe and we should not take the risk of inadequate IMF resources to try to respond effectively.

Poland provides a good example of how effective the IMF has been in Central Europe. The IMF helped Poland slash inflation and sustain growth and, with the World Bank, provided almost $5 billion of loans to help it through the harsh years of adjustment that set the stage for its subsequent recovery. GDP in Poland has risen by more than 35 percent in real terms in the past six years. Private investment has now overtaken official sources of finance as the leading source of capital and Poland has repaid all of its outstanding IMF loans of nearly $2 billion.

Our success in providing leadership on critical international issues through the IMF and the UN and on doing our share to fund these institutions, and our success in continuing to liberalize trade while we work to broaden participation in the benefits of the global economy, and on the underlying requisite for all of this of building broader public support for international economic policies, is critical to our country's economic well-being and our national security for the years and decades ahead. We must all work together to meet those critical challenges. Thank you very much.

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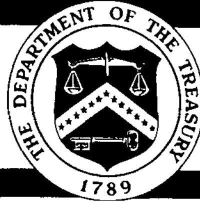
DEPARTMENT OF THE TREASURY

TREASURY  NEWS

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FOR IMMEDIATE RELEASE
Text as Prepared for Delivery
June 11, 1998

STATEMENT OF ELISABETH A. BRESEE
NOMINEE FOR ASSISTANT SECRETARY OF THE TREASURY (ENFORCEMENT)
SENATE FINANCE COMMITTEE

Mr. Chairman, Senator Moynihan, and members of the Committee: I am honored to appear before you as you consider my nomination to be the Assistant Secretary of the Treasury for Enforcement.

I want to thank Secretary Rubin for recommending me to the President, and I thank President Clinton for his nomination.

On a personal note, I would like to recognize my mother, Georgia Couden of Oneonta, New York, who is here with me today. My mother earned her Masters Degree in social work when I was in grade school and by her example I have learned the value of serving others. She has also given me her unwavering support and has always believed in my abilities and potential.

From my family and my work as a federal prosecutor I have learned that public service is not only a privilege but a responsibility, and one of the highest callings to which a citizen can aspire. Because of this, I look forward to the challenges of serving as Assistant Secretary if confirmed.

I would like to provide the Committee with a sense of my professional background. I have worked directly on law enforcement matters since 1989, when I was appointed as an Assistant United States Attorney for the District of Columbia. While serving in that office, I prosecuted a wide variety of cases including Public Corruption and Violent Crime cases. The District of Columbia office is an extremely challenging place to work, given the multitude of crime problems that face our nation's capital. While serving as a prosecutor, I gained valuable experience and learned firsthand about many of Treasury's enforcement responsibilities from my work with agents and officers from the Secret Service and ATF.

In 1994, I joined the Department of the Treasury first as Assistant Director of the White House Security Review, and then as the Director. The Security Review represented the most

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comprehensive assessment of air and ground security ever conducted at the White House Complex. Following the review, I was appointed Deputy Assistant Secretary for Law Enforcement, with responsibility for assisting in oversight of the Department's law enforcement bureaus and offices. Shortly after my appointment as Deputy Assistant Secretary, I carried out the duties of the Under Secretary and Assistant Secretary for Enforcement while Assistant Secretary Johnson and Under Secretary Kelly were awaiting confirmation.

In my position, I have been involved in the Department's continuing effort to provide greater oversight to its law enforcement bureaus, and its effort to ensure that our bureaus maintain the highest standards of professionalism. Because of the sensitive nature of our law enforcement missions, I worked with the Under Secretary and Assistant Secretary to enhance our oversight of Treasury's law enforcement bureaus in numerous areas, including integrity and internal affairs matters, training, and equal employment opportunity issues. I have also assisted in guiding a comprehensive review of Treasury's Federal Law Enforcement Training Center -- an entity that trains nearly 80% of new federal law enforcement officers -- and in improving our continuing efforts to safeguard our Southwest Border against the influx of drugs and contraband. Indeed, just this week I was in Laredo, Texas where I had an opportunity to view the innovative efforts that Customs is employing at that very challenging port of entry.

My work at Treasury over the past four years has allowed me to understand the important missions of our enforcement bureaus and how these missions complement each other. Together, Customs and ATF collect nearly $37 billion in revenue. Customs also protects our nation from narcotics smuggling, maintains the integrity of the border, and enforces international trade laws. ATF targets violent criminals, firearms traffickers and arsonists. The Secret Service protects our nation's leaders and combats fraud. And OFAC and FinCEN enforce trade sanctions and help fight money laundering, respectively. These responsibilities help finance the government; protect our financial system from fraud, abuse, and instability; and ensure the safety of our nation and its people.

The Treasury agents, inspectors, and officers who carry out these missions embody the highest ideals of commitment, professionalism, and genuine public service. It will be a privilege to continue to serve Treasury and assist with the leadership of these women and men.

I am acutely aware of the broad and important responsibilities of the Office of Enforcement. I also believe my experience at Treasury, at the U.S. Attorney's Office, and as a lawyer in private practice will serve me well as Assistant Secretary, if confirmed. With the guidance of this Committee and the support of Secretary Rubin, I believe I am ready to meet the challenge. Thank you very much.

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DEPARTMENT OF THE TREASURY

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FOR IMMEDIATE RELEASE
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STATEMENT OF JAMES E. JOHNSON
NOMINEE FOR UNDER SECRETARY OF THE TREASURY (ENFORCEMENT)
SENATE FINANCE COMMITTEE

Mr. Chairman, Senator Moynihan, and members of the Committee: I am honored to appear before you today as you consider my nomination to be Under Secretary of the Treasury for Enforcement.

At the outset, I wish to thank Secretary Rubin both for recommending me to the President and for his support during the last two years. I thank President Clinton for my nomination.

On a personal note, I would like to recognize my family: My wife, Sigrid Gabler; one of our two daughters, Abigail (at five months, Amalya is not quite ready for such a gathering); and my mother, Birdie Johnson. It is as a result of the continued support of my family and friends -- many of whom are here -- that I sit before you again this morning.

First, I would like to tell you a bit about my professional background. From 1990 to 1996, I served as an Assistant United States Attorney in the Southern District of New York. During the last two and one-half of those years, I was privileged to serve as a Deputy Chief of the Criminal Division under United States Attorney Mary Jo White. During my tenure as an Assistant U.S. Attorney, I personally prosecuted or supervised the prosecution of criminal cases brought by the United States Secret Service, the Bureau of Alcohol, Tobacco and Firearms, the United States Customs Service, and the Internal Revenue Service. For approximately four months, beginning in November of 1994, I was detailed by the Department of Justice to serve as Assistant Director of the Treasury Department's White House Security Review.

As you know, I began serving as the Treasury Department's Assistant Secretary for Enforcement in March of 1996. Since he joined the Department in June of that year, I have assisted Under Secretary Kelly in the oversight of the United States Customs Service, the United States Secret Service, the Bureau of Alcohol, Tobacco and Firearms (ATF), the Federal Law Enforcement Training Center (FLETC), the Financial Crimes Enforcement Network (FinCEN),
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and the Office of Foreign Assets Control (OFAC). Since June of 1996, I have also served as the co-chair of the National Church Arson Task Force, which was created by President Clinton to coordinate the federal law enforcement response to church fires.

During these last two years, I have had the privilege of working with an array of talented and dedicated individuals. Starting from the top, I would like to take this opportunity to acknowledge my colleagues, Under Secretary for Enforcement, Raymond W. Kelly, and Deputy Assistant Secretary, Elisabeth A. Bresee, who are also here before you today. I look forward to continuing to work with them as members of Treasury's team. I also wish to extend my compliments to the heads of Treasury's law enforcement bureaus; they are exemplary public servants and are a source of tremendous strength for the Department. Indeed, during my tenure as Assistant Secretary, I have consistently observed that the commitment and professionalism demonstrated by the men and women of our bureaus are nothing less than impressive. If confirmed as Under Secretary, I look forward to the privilege of heading this gifted team.

The range of issues handled by Treasury's law enforcement bureaus and the Department's Office of Enforcement is broad: From the Secret Service's protection of the American president to OFAC's enforcement of economic sanctions; from Customs' protection of our borders to FLETC's training of the majority of federal law enforcement officials; and from ATF's work on the President's Youth Crime Gun Interdiction Initiative to FinCEN's continued efforts to build a regulatory regime that will curtail the laundering of the illicit proceeds of crime. The reach of these bureaus, and our ability to work together for good in the life of this Nation, is tremendous.

This breadth of responsibility provides both opportunity as well as challenge. As Assistant Secretary, under the leadership of Secretary Rubin and Under Secretary Kelly, I have had the honor of helping to design, develop and implement policies aimed at advancing the missions of Treasury's law enforcement bureaus. As Under Secretary, I look forward to moving forward with our enforcement agencies as they carry out these missions. I look forward to working with each as it shapes a strategy that will carry it into the 21st Century and expect to work closely with the Congress as we carry this work forward.

While the challenges before us are considerable, I believe that Treasury law enforcement personnel have consistently demonstrated the capacity to meet those challenges. As Under Secretary, I look forward to continuing in that tradition and to maintaining the high standards of oversight practiced at the Department of the Treasury.

Thank you.

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DEPARTMENT OF THE TREASURY

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FOR IMMEDIATE RELEASE
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STATEMENT OF RAYMOND W. KELLY
NOMINEE FOR COMMISSIONER OF THE U.S. CUSTOMS SERVICE
SENATE FINANCE COMMITTEE

Mr. Chairman, Senator Moynihan. The last time I appeared before the Senate Finance Committee for a confirmation hearing it was as the nominee for Under Secretary of the Treasury for Enforcement. I had come to the post with some familiarity with Treasury's enforcement bureaus, having worked with them during my career in the New York City Police Department.

That relationship, obviously, has become much closer since coming to Treasury. My tenure as Under Secretary has given me a greater appreciation for both the ability and the potential of the Bureau of Alcohol, Tobacco and Firearms, for the Secret Service and for the Customs Service, as well as the other arms of Treasury enforcement.

It has also reinforced for me the importance of cooperation among Federal and local law enforcement generally, and between the Treasury and Justice Departments in particular. There will always be a healthy spirit of competition among the best practitioners of law enforcement. But in the interest of public safety, we must set the rivalries aside and work toward a common end. That has happened between the Treasury and Justice Departments in recent arson and bombing investigations, in counter narcotics efforts, in airline safety, and a whole host of ways that has made for better law enforcement. I encouraged that kind of cooperation at the Treasury Department, and I will continue, given the opportunity to do so, at the Customs Service.

The Customs Service is the nation's oldest law enforcement arm. And it remains, first and foremost, just that -- a law enforcement agency. But much has changed in two centuries -- not the least of which is America's emergence as the world's economic giant, with trade and commerce relationships the world over. America's wealth, and the opportunity that wealth has afforded millions of Americans, is inexorably linked to the free flow of goods and services across borders.

The Customs Service has worked closely with the trade community. I want to strengthen the relationship. I want to make it even closer. It is essential for both the free flow of trade and

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our enforcement mission. There has been progress. But we can do more. I want to improve the information flow between us, and work out any glitches in the modernization process that may have impeded us in the past. The Customs Service is duty-bound to stop drug dealers, illegal arms merchants and others who traffic in death and addiction for profit. The sheer volume of modern trade makes the inspection of every item entering the United States impossible. We can't do it, and we wouldn't want to even if we could. We need the trade industry's cooperation, and the Customs Service needs to cooperate with it. The Customs Service must also continue to invest in technology -- such as advances in x-rays and other means of inspection to do what human eyes and hands cannot do alone.

The Customs Service, at its core, must be vigilant. We have seen criminal organizations, particularly in narcotics, put entire societies at risk by assaulting and corrupting law enforcement, by manipulating financial systems, and by undermining democratic institutions. It is unimaginable for the same thing to happen in the United States. But one of law enforcement's responsibilities is to plan for unimaginable things; to pursue wrongdoers so the unimaginable remains unimaginable.

The Customs Service needs to stay ahead of the technological curve -- the same technology that organized crime is eager to exploit. The drug cartels would prefer to move their profits as data over fiber optic highways instead of cash over interstate highways. We seize a lot of their money that way. Customs has done some remarkable work in stopping the cartel's latest money laundering activity. Operations Wire Drill, El Dorado and Casablanca were great successes in taking down some of the underworld's most sophisticated money laundering schemes. That kind of good, effective law enforcement needs to continue and expand as criminal organizations seek new ways to move their ill-gotten gains.

I want to compliment the fine men and women of the Customs Service. I look foward to working with these professionals on a daily basis. The Customs Service has done very good law enforcement work. But it can do it better. It can do better by recruiting the best candidates possible for agents and inspectors; by improving training; by investing in and deploying the best technology available, and by building the strongest alliances possible with the trade community.

Above all, the Customs Service must be persistent. It must be dogged in its determination to bring smugglers and other law breakers to justice. That really is the secret to the success of American enforcement -- persistence. We persist. We spend resources in persisting. We provide for a peerless criminal justice system that guarantees everything from a fair trial to humane prison conditions. We tend to spend the money to do it right. We stay the course. That combination of resources and commitment puts law breakers in considerable peril. Criminals in America who are not caught in the act, tend to be caught sometime thereafter.

The fate of any criminal who tries to defeat the Customs Service should be captured -- sooner or later. I envision the Customs Service -- at its best -- as ever vigilant and doggedly persistent. I see the Customs Service making drug smuggling, arms trafficking and money laundering the riskiest of high risk activities, prone to frequent and spectacular failure.

Given the opportunity, I will work very hard to make it so. My professional career has been devoted to law enforcement. I am, therefore, privileged to be nominated as Customs Commissioner and want to publicly thank President Clinton and Secretary Rubin for their confidence in me to take on this important new role. I am happy to answer any questions the Committee may have.

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DEPARTMENT OF THE TREASURY

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EMBARGOED UNTIL 9:30 A.M. EDT
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TREASURY UNDER SECRETARY (ENFORCEMENT)
RAYMOND W. KELLY
HOUSE COMMITTEE ON BANKING AND FINANCIAL SERVICES

Chairman Leach, Mr. LaFalce, members of the Committee, it is a pleasure to be here today to speak about a top priority of President Clinton, Secretary Rubin, Attorney General Reno, and the Congress -- the federal government's efforts to combat money laundering.

Treasury Department enforcement bureaus and offices are responsible for significant elements of this fight. The U.S. Customs Service, the Criminal Investigation Division of the Internal Revenue Service (IRS-CI), the U.S. Secret Service and the Bureau of Alcohol, Tobacco and Firearms are charged with investigating money laundering in cases where the underlying criminal act lies within their core jurisdiction. The Financial Crimes Enforcement Network -- FinCEN -- is charged with administering the Bank Secrecy Act, which prescribes transaction reporting and record-keeping requirements for financial institutions designed to insulate those institutions from money laundering, and to provide a paper trail for investigators. FinCEN also serves as the central point for collection and analysis of Bank Secrecy Act data, providing case support to law enforcement investigations. The Office of Foreign Assets Control is responsible for implementing sanctions against nations determined to be a threat to the national security, economy or foreign policy of the United States, pursuant to the International Emergency Economic Powers Act (IEEPA), including sanctions aimed at the Colombian drug cartels. Treasury enforcement agencies work closely with one another, other law enforcement agencies, the Department of Justice, and with the Federal Reserve, the Office of the Comptroller of the Currency and other regulators as part of a comprehensive attack on money launderers and their underlying criminal activities.

Operation Casablanca

The impact these entities can have on money laundering is reflected in the Customs Service's recently concluded Operation Casablanca, the largest drug money laundering investigation in U.S. history. Although I cannot discuss the case in detail because the
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investigation and prosecutions are ongoing, I will provide a brief description of the operation based on information which has already been made public.

Prior to 1995, agents in Customs' Los Angeles Office had information that drug cartel members were laundering narcotics proceeds through branches of Mexican banks along the border. Operation Casablanca began in earnest in November 1995, after undercover agents participated in a money laundering transaction involving high level money launderers for the Cali and Juarez cartels. The investigation then expanded to include the financial infrastructure of the Juarez Cartel, including its money manager Victor Alcala Navarro, and a principal in the cartel, Jose Alvarez Tostado.

The investigation targeted both the financial infrastructure of the Juarez and Cali cartels and the financial systems used by these cartels to launder their U.S. drug proceeds. During the course of this investigation, undercover agents posed as money launderers for the cartels and met with Mexican and Venezuelan bankers who were willing to launder the cartels' illicit funds. These bankers established bogus accounts and would issue bank drafts to avoid anti-money laundering regulations. As a result of this investigation, indictments were brought against members of the Juarez and Cali Cartels and their financial brokers and bankers. One indictment charged 26 Mexican bank officials and three Mexican banks -- CONFIA, BANCOMER, and BANCA SERFIN – with money laundering.

To date, Operation Casablanca has resulted in the arrest of 167 individuals and the seizure of approximately $100 million. We expect further arrests and seizures in this investigation.

We believe that Operation Casablanca represents a significant step forward to curb money laundering. However, it is only the most recent example of law enforcement's efforts to close off U.S. and foreign money laundering systems used by drug traffickers and other criminals. Today, I want to speak about all aspects of Treasury's fight against money laundering -- a three-pronged strategy aimed at preventing money laundering through regulation, detecting money laundering through investigation, and deterring money laundering through international efforts. Before I discuss our efforts, however, I want to briefly discuss the challenges we are confronting.

The Money Laundering Threat

Money laundering is the life support system of sophisticated international criminal enterprises. The ability to sanitize ill-gotten gains permits drug trafficking and other criminal groups to perpetuate, and live lavishly from, their illegal activity. But, as Casablanca demonstrates, money laundering provides a point of vulnerability for these organizations. Indeed, the steps which criminal groups must take to lend the appearance of legitimacy to their illicit profits, provide us with an invaluable opportunity to attack the criminal organizations themselves. The better we are at tracking dirty money, the better our ability to bring down the leaders of drug trafficking and other criminal groups. For while the drug kingpins can separate themselves from street-level sales, they cannot separate themselves from the profits those sales generate.

The money laundering problem we face today is increasingly international in character. The greater integration of the world economy, and the removal of barriers to the free movement of capital, have combined to create new commercial opportunities. Unfortunately, the efficiency and convenience that the global economy affords to legitimate commerce, make the job of disposing of criminal proceeds easier.

Late last year, this Committee held hearings on a money laundering system that serves as an excellent example of the scope and complexity of money laundering today -- the Colombian Black Market Peso Exchange. This system works as follows: Cocaine is shipped from Colombia to the United States where it is sold. The narcotics proceeds are then deposited by the Colombian drug cartels into U.S. bank accounts belonging to a black market peso broker in Colombia. The peso broker then sells these dollars to Colombian businessmen for pesos which are paid to the drug trafficker in exchange for the dollars. The Colombian businessmen use the dollars to purchase goods in the U.S. which are shipped to Colombia. This method permits the drug trafficker to convert dirty money -- the drug proceeds -- into clean money -- the Colombian pesos -- which can be spent legitimately.

Treasury's Response: Regulatory and Enforcement Efforts

To address this increasingly complex money laundering threat we must continue to focus our anti-money laundering efforts on both prevention and enforcement. In so doing, we cannot stop at our borders, but must promote an aggressive international campaign to ensure that all nations are vigilantly pursuing the money laundering problem.

Domestic Efforts -- Regulatory and Enforcement

Domestically, our goal is to combine effective prevention of money laundering with proactive aggressive enforcement. Leveraging Treasury's unique regulatory authority in concert with its enforcement capabilities (and those of other agencies), we seek a comprehensive approach to the money laundering problem -- one that both insulates financial institutions from criminal proceeds, and enhances the prospects for identifying launderers and disrupting their illegal schemes.

Domestic Regulatory Efforts

We are accomplishing this objective in several ways. To enhance our ability to prevent money laundering, for example, we are developing more intelligent, targeted regulations for banks and other financial institutions. In the last several years, FinCEN has been engaged in an effort to streamline regulations while actually increasing the utility of the information provided to law enforcement.

As part of the continuing process of reforming the BSA, we have introduced an invigorated system of suspicious transaction reporting. Our objective is to permit the financial

sector to redirect its resources from mechanical compliance to more proactive detection methods. We are building our alliance with the U.S. financial services community, utilizing its expertise to identify potential criminal conduct within its midst.

We are also working to revitalize anti-money laundering controls for institutions other than banks. To that end, FinCEN recently issued proposed regulations expanding suspicious activity reporting to casinos and will soon add securities firms. FinCEN also is in the process of finalizing regulations requiring the registration of issuers and sellers of traveler's checks and money orders, money transmitters and other "money services" businesses. These regulations will also require certain of these institutions to report suspicious activity. Finally, FinCEN has proposed regulations that would impose a special currency reporting rule on certain outbound currency transfers stemming from Treasury's use of Geographic Targeting Orders, which I will talk about below.

Domestic Enforcement Efforts

In addition to our regulatory efforts, which are geared toward preventing the placement of illicit proceeds in our nation's financial institutions, Treasury's investigative bureaus have been working to enhance the detection and investigation of money laundering. Customs and IRS-CI in particular are aggressively pursuing investigations in which the disruption of a money laundering operation, and the arrest and prosecution of the launderers, are the primary objectives. Together, these agencies have approximately 1,100 expert financial investigators and staff dedicated to "pure" money laundering investigations. Last year alone, Customs conducted nearly 4,500 money laundering investigations. IRS-CI conducted almost 2,500.

Just last week, Customs seized more than $15 million in cash believed to be illegal drug proceeds in four separate incidents in Houston, San Diego, Newark, and Chicago. The money was destined for Colombia, Venezuela and Mexico.

Domestic Efforts -- The Comprehensive Approach

As I stated earlier, we believe our efforts are most successful when we combine prevention with enforcement to shut down entire money laundering systems. This comprehensive approach can be seen in Operation Casablanca and in Treasury's use of Geographic Targeting Orders, or GTOs.

The Comprehensive Approach -- Casablanca

On its face, Casablanca may appear to be strictly an enforcement action. In light of its own regulatory authority, Treasury understands how law enforcement can benefit by working with regulators. In the case of Casablanca, the involvement of the Federal Reserve Board made it possible for it to immediately issue temporary cease and desist orders to six banks (Banamex, Banca Serfin, Bital, Bancomer and Banco Santander, Banco Industrial de Venezuela). The orders require these banks to describe their current anti-money laundering programs, to tell the Federal

Reserve their understanding of what broke and to submit an acceptable plan to fix what was broken.

More broadly, Treasury is reviewing its regulations to see what, if any, changes are needed to better prevent and detect money laundering schemes such as those utilized in Casablanca.

The Comprehensive Approach -- GTOs

Another example of Treasury's comprehensive approach is its use of Geographic Targeting Orders -- GTOs. In 1996 and 1997, Treasury, working with the Department of Justice, issued a number of GTOs mandating additional record-keeping and reporting requirements for certain money transmitters sending money to Colombia and the Dominican Republic. As with Casablanca, in the case of the GTOs, investigative work led to regulatory action. With the GTOs, however, the regulatory action also spawned enforcement activity.

Through the work of a Treasury-led task force, Operation El Dorado, it became apparent that Colombian drug traffickers were using certain money remitters in the New York City area to launder drug cash. The evidence demonstrated that 12 remitters had funneled approximately $800 million a year to Colombia. To account for this money legitimately, each Colombian household in the area would have had to wire $30,000 to Colombia each year -- an amount which exceeds the $27,000 average annual income for this community.

To address this problem, Treasury invoked a previously little-used statutory provision which grants the Secretary of the Treasury authority to require special reporting and record keeping by financial institutions in specific geographic areas where necessary to fulfill the purposes of the Bank Secrecy Act.

In August 1996, Treasury issued a GTO aimed at remittances from the New York City area to Colombia. It required 12 New York area money remitters and their approximately 1,600 agents to obtain and report identifying information on all cash remittances of $750 or more to Colombia. A second GTO was signed in October 1996, extending the heightened reporting requirements to 10 additional remitters and their agents. The GTOs were extended by Treasury several more times before expiring in October, 1997. Following the Colombian GTOs, Treasury issued a series of similar GTOs covering money remittances sent to the Dominican Republic by certain remitters in New York, New Jersey and Puerto Rico.

While we are still reviewing the effect of the Dominican Republic GTOs, it is clear that the Colombian GTOs had a significant impact on the flow of drug proceeds through the targeted remitters. Several of the remitters targeted under the GTOs stopped sending funds to Colombia altogether, while many others sent significantly lower amounts. Thirteen individuals and two corporations have been indicted or have pled guilty to structuring transactions to avoid the GTOs. Several others are under investigation.

The GTOs also forced the traffickers to resort to other, more difficult tactics to move their profits back to Colombia. In the first six months after the Colombian GTOs went into effect, Customs' currency seizures at East Coast ports of entry increased approximately four hundred percent as traffickers were forced to move money in bulk.

The Colombian GTOs represent the model for intelligent money laundering control. Beyond using traditional law enforcement techniques to address discrete instances of criminal activity, the GTOs marshaled Treasury's regulatory authority to identify and correct a weakness that had penetrated a small but important part of the money transmitter industry. This preventative effort, in turn, triggered a wave of enforcement activity, as money launderers were forced to resort to riskier means of moving their funds once the vulnerabilities in the transmitter industry had been remedied. Finally, the evidence gleaned through the GTO experience prompted Treasury to propose a more permanent solution to the problems it sought to address. FinCEN is in the process of finalizing the three regulations it proposed last May to deal with money services businesses. The regulatory process has emphasized frank and full discussions with industry in five open meetings and the review of more than 80 comments. The final rules will build on the GTO experience by dealing with abuse in sectors of the money remitter industry and giving us the tools to carry on the work begun by the El Dorado Task Force.

International Efforts

Through innovation in regulation and enforcement, then, we are working to make U.S. financial channels less user friendly to criminal enterprises. Indeed, as our experiences in Casablanca and with the GTOs demonstrate, we have been successful at forcing drug traffickers to alter their money laundering schemes. But these are only two fronts in the battle.

Drug traffickers and other criminal organizations will continue to search for the path of least resistance to launder their money. Thus, no country's individual efforts -- whether in the legal, regulatory, or law enforcement arena -- will be sufficient given the relative ease with which money flows across borders.

In this regard, important strides have been made through multilateral initiatives. Chief among those have been the Financial Action Task Force, or "FATF." The FATF is an independent, international group formed in 1989 by the G-7 nations to cultivate the development of effective anti-money laundering controls and enhance cooperation in investigations among its membership and around the globe. In the nine years since its inception, the FATF has made significant progress. The FATF 40 Recommendations, issued originally in 1990 and updated in 1996, serve as the principal benchmark for governments addressing the legal, financial and regulatory aspects of money laundering. Moreover, prior to the establishment of the FATF, money laundering was a criminal offense only in the U.S. and a couple of other nations. Today, all 26 FATF member nations have such laws in place.

Over the next several years, the FATF will expand its membership to include strategically important countries from under-represented parts of the world, and foster the development of FATF-style regional bodies, such as the Caribbean Financial Action Task Force and the Asia Pacific Group.

A related initiative designed to build upon the FATF's success in the Western Hemisphere has begun under the auspices of the Summit of the Americas. As a follow up to the 1994 Summit in Miami, Secretary Rubin convened a conference of Finance and Justice Ministers representing 29 of the 34 democracies of the region in Buenos Aires in December 1995. The purpose of the Buenos Aires conference was to develop a coordinated, hemispheric strategy to combat money laundering. The conference produced an agreement on the basic elements of such a strategy, including the need to: criminalize the laundering of the proceeds of drug trafficking and other serious crimes; adopt reporting and record keeping regulations to protect financial institutions; take steps to enhance international cooperation in money laundering investigations; and create financial intelligence units that specialize in the collection and analysis of pertinent financial records in order to help track criminals' financial activities.

The Summit process has yielded promising results. Over one third of the Summit nations have passed legislation criminalizing money laundering, or have issued anti-money laundering regulations. Many others are considering doing so. Four Summit countries have established financial intelligence units and a fifth, Paraguay, is expected to have a financial intelligence unit in place by July 1, 1998.

In addition to multilateral efforts, Treasury -- in conjunction with our partners at the Departments of Justice and State -- works bilaterally with a number of countries to strengthen the global fight against money laundering. In so doing, we provide assistance in a wide-range of areas. Treasury and Justice have assisted Mexico, Panama, El Salvador and others in drafting anti-money laundering legislation and regulations. FinCEN has provided technical assistance to Canada, Venezuela, Argentina, and other countries regarding the establishment of financial intelligence units and has trained analysts staffing such units. In the last year, IRS-CI has trained foreign investigators and prosecutors from, among other places, Russia, El Salvador, Trinidad and Tobago, and Brazil. In fact, just last week, IRS-CI and Customs participated in a training session for Colombian prosecutors and investigators sponsored by the Department of Justice. Through these multilateral and bilateral efforts we will continue to make it more difficult for criminals to launder their illicit funds in all countries.

<u>IEEPA</u>

The final component of Treasury's international strategy is the IEEPA Specially Designated Narcotics Traffickers program directed against the Colombian drug cartels. This economic sanctions program against the Colombian narcotics traffickers was imposed by President Clinton through Executive Order 12978 issued under authority of the International Emergency Economic Powers Act. The principal tool for implementing the IEEPA narcotics trafficking sanctions is the list of Specially Designated Narcotics Traffickers ("SDNTs")

developed by Treasury's Office of Foreign Assets Control ("OFAC") in close consultation with the Justice and State Departments.

The objectives of the SDNT program are to identify, expose, isolate and incapacitate the businesses and agents of the Colombian cartels and to deny them access to the U.S. financial system and to the benefits of trade and transactions involving United States businesses and individuals. For example, SDNTs are denied access to banking services in the U.S. and Colombia, and existing SDNT accounts have been terminated. To date, OFAC has identified nearly 400 closed Colombian bank accounts affecting over 200 SDNTs.
OFAC has issued seven lists identifying SDNTs since the inception of the IEEPA sanctions in October 1995. As of today, OFAC has listed 451 companies and individuals as SDNTs against which the prohibitions and blocking authorities of Executive Order 12978 apply. The SDNT list includes the four kingpins of the Cali cartel named by President Clinton as significant narcotics traffickers, the newly-designated significant North Coast trafficker, Julio Caesar Nasser David, 154 companies, and 292 additional individuals involved in the ownership or management of the Colombian drug cartels' "legitimate" business empire. Work is underway on naming more SDNTs.

Next Steps

The drug traffickers and other criminals never rest in their attempts to find new, easier methods of laundering their dirty money. We must be ever vigilant in our efforts to stop them. Just as we continue to hurt the criminal groups through enforcement activity, we also continue to revise our regulations to respond to new threats. To ensure that prosecutors and investigators in the field are informed about regulatory and other tools as they are developed, Treasury and Justice co-sponsor a series of money laundering conferences. To date, conference attendees, which include nearly 200 federal investigators and prosecutors from across the country, have discussed Geographic Targeting Orders, FinCEN's Suspicious Activity Reporting System, and money laundering trends including the use money orders and bulk cash shipments.

Additionally, our efforts to continually improve our anti-money laundering regime include reviewing relevant law to see if changes need to be made. In this regard, I would like to encourage the Committee to support President Clinton's International Crime Control Act. The new authorities contained in the Act would give Treasury more weapons to fight a wide-range of international crimes, including money laundering. I particularly want to highlight the provision permitting Customs to search outbound mail.

Currently, the Customs Service conducts legal, warrantless border searches in virtually every situation in which merchandise crosses the border. The one exception is outbound international mail sent through the U.S. Postal Service.
We are certain that this fact has not gone unnoticed by international criminals and terrorists, who are only too happy to take advantage of this relatively safe and inexpensive means of transporting contraband and cash out of the United States. Express mail parcels can accommodate up to $90,000 in $100 bills, making it one of the most efficient and cost-effective means of smuggling

currency out of the country. Similarly, a single international letter class parcel can hold as much as $180,000 in $100 bills. The outbound mail provision of the President's International Crime Control Act would make it easier for Customs to interdict such shipments.

In addition to the President's International Crime Control Act, I also want to take a moment to comment on your bill, Mr. Chairman, as well as the bill introduced by Representative Velazquez. In doing so, however, I would only note that I must limit my comments to technical matters pending a more detailed analysis and formal position by the Administration on each of the bills.

The money laundering problem is complex and extends across the country and beyond our borders, and potentially involves different sectors of the financial services industry. The Department of the Treasury appreciates the efforts made by this committee and its members to help us in the fight against money laundering, including the development of legislation to enhance anti-money laundering measures.

"Money Laundering Deterrence Act of 1998" (Leach Bill)

The Money Laundering Deterrence Act contains a number of provisions with objectives that could further our fight against money laundering.

In particular, we appreciate the attempt the bill makes to address the use of form 8300 to assist law enforcement investigations of money laundering and financial crimes. This form is essentially the equivalent of a Currency Transaction Report (CTR) for non-financial businesses such as car dealerships. Changing the status of this form so that it is required by the Bank Secrecy Act rather than the Internal Revenue Code could provide valuable information to federal, state, and local law enforcement organizations conducting financial crime investigations and tracking down the laundering of drug profits and other criminal proceeds.
We also appreciate the effort made in this bill to extend a "safe harbor" from liability for reporting suspicious financial activity. As we view it, the provisions in the bill would grant immunity to accountants who report suspicious activities and would make clear that a "safe harbor" for suspicious activity reporting applies to arbitration.

This legislation also expands BSA summons authority, which could be used by FinCEN to develop a modern civil enforcement program with easier access to important information. This provision would clarify the scope of laws covering BSA administrative summons to cover compliance audits and investigations related to the filing of BSA reports for any person.

In one of its sections, the bill also attempts to clarify penalties for violations of GTO's and funds transfer rules. The bill would make plain that violations of GTO's and of wire transfer rules constitute violations of law, and that structuring violations extend to transactions that are broken up to avoid the $3,000 floor for wire transfer record-keeping requirements. These changes solve important technical problems.

"Money Laundering and Related Financial Crimes Strategy Act of 1998" (Velazquez Bill)

We appreciate that Congresswoman Velazquez's Money Laundering Strategy Act recognizes the scope of the money laundering problem and attempts to develop a mechanism to address these challenges.

An anti-money laundering strategy could prove to be useful in setting priorities and communicating them to Congress and the public. Money laundering enforcement is complex and resource-intensive. Enforcement of money laundering laws could benefits from proper coordination among federal, state, and local law enforcement.

We also appreciate the bill's effort to make additional resources for anti-money laundering activities available to the men and women fighting money laundering in State and local law enforcement. Financial crime investigations are complex and require specialized expertise, as well as resource commitments to follow leads that take time to develop. Like our some of recent investigations indicate, cases themselves may span years and are information-intensive. Because of this, State and local law enforcement can benefit from additional resources and expertise to fully join the fight against money laundering.

"Money Laundering Act of 1998" (McCollum Bill)

The Money Laundering Act of 1998 introduced by Congressman McCollum includes provisions that were in a money laundering bill the Administration supports. This bill could also help us in our continuing fight against money laundering, both in the United States and abroad.

The Administration has previously supported a bill containing most, though not all, of the provisions in this proposal. This bill was primarily designed to address international laundering of criminal proceeds, either by criminals committing offenses in the U.S. and attempting to conceal their gains abroad, or by criminals who commit offenses in other nations and attempt to use our financial system to launder their profits. For example, Section 8 of this legislation would expand the predicate offenses for money laundering to include a number of foreign crimes, such as terrorism, fraud and corruption, and crimes of violence. Section 16 also raises the standard necessary for successfully asserting the "innocent owner" defense if individuals buy tainted profits on the so-called "Black Market Peso Exchange." Under this legislation, such a claim would be subject to the legal standard applicable in drug cases, which requires a person to establish that he or she was a bona fide purchaser who took all reasonable affirmative steps to make sure that the money was not derived from a criminal offense.

The Justice Department took the lead in drafting the original legislation from which this bill draws, and will likely have further comments about other significant provisions contained in this bill.

Further collaboration

As you consider all of this legislation, we want to be of the greatest possible assistance in giving you the best considered view regarding technical aspects of the bills. These anti-money laundering bills highlight the Committee's determined support to assist federal law enforcement and regulators in the fight against laundering of dirty money. We would like to continue to work with each of you as you move forward with your respective bills.

Once again, I would like to thank the Committee for allowing me to speak today on this very important issue. I look forward to continuing our work to combat money laundering in the U.S. and abroad. Thank you.

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TREASURY SECRETARY ROBERT E. RUBIN
SENATE FINANCE COMMITTEE

Mr. Chairman, members of this Committee, I think that your hearing today on the trade deficit provides all of us a most useful opportunity to discuss many issues of great public importance.

To begin, I would like to place the issue of the trade deficit in the broader macroeconomic context. The United States has the strongest economy among the major industrialized countries in the world today. Unemployment is 4.3 percent and it has been under 6 percent for nearly four years. The economy has generated 16 million new jobs over the last five years, inflation has remained low and real wages are rising.

At the same time, we have an expanding trade deficit. The current account deficit -- the broadest measure of the trade balance -- is rising, but it is worth noting that, relative to the overall size of the economy the present deficit is considerably smaller than the deficits of the mid-1980s. We estimate it equaled around 2.5 percent of GDP in the first quarter, compared to 3.5 percent of GDP in the mid-1980s. Private forecasters estimate that it will be between 2.5 and 3 percent of GDP in 1999.

The reasons behind the rising trade deficit are many, and Chairman Yellen will discuss how the savings rate affects the deficit, but the most important is that the U.S. economy is considerably stronger than the economies of almost all of our significant partners. The driving force behind the U.S. economy's current strength has been domestic demand, while, even though exports have been performing well, foreign demand for our exports has been notably weak. This has been particularly true in Asia, which has accounted for one-third of our total exports. First quarter data indicate that U.S. exports to the countries most affected by recent instability in Asia -- Thailand, Malaysia, Indonesia, the Phillippines, Singapore, and Korea -- are currently on pace to fall between $17 billion and $21 billion (annualized) since the crisis began, depending on how one does the seasonal adjustment , and the decline could be larger if further contraction occurs. If you include Japan, the figure is between $23 and $29 billion.
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That takes us to the industrialized nations, most of whose economies have also been relatively weak compared to ours. Most troubling, the Japanese economy still fails to show signs of recovery, and Japan's economic difficulties and weak currency are having substantial adverse impact on the East Asian countries. Obviously, the worse these conditions in Japan, the greater that adverse impact on the region. We, the IMF, the OECD, and the G-7 -- in our case for well over a year -- have strongly urged the Japanese government to undertake the necessary steps to stimulate domestic demand-led growth, including fiscal stimulus, an effective program to address the problems of the banking sector, and deregulation and market opening. In this regard, we have in the past several months said on many occasions that we share the Japanese government's growing concern about the weakness of the yen, because of its implications for economic recovery in Asia and Japan's growing external surplus. In turn, the weakness of the yen reflects the economic conditions in Japan, and can only be remedied by restoring economic strength in Japan.

In short, Mr. Chairman, the recent rise in our trade deficit, and the trade deficits of the last few years, reflect the strength, not the weakness of the U.S. economy. Even with the rise in the trade deficit, we estimate the most likely scenario for the U.S. economy for the period ahead is sustained growth, low inflation, and low unemployment.

Let me now begin a discussion of the impact of the trade deficit on our economy. One thing that is clear is that the trade deficit has not undermined our strong economic performance. Having said that, let me focus on two dynamics regarding the trade deficit. On the one hand, it means we are attracting foreign investment, which does create claims from abroad that, at some point, have to be repaid. On the other hand, if we use that investment in areas that promote higher productivity in the long term, it will result in higher growth, and, on balance, increase, not drain, future income, assuming the return to the economy on the investment exceeds the foreign obligations. Currently, the United States is experiencing record levels of business investment, and thus, the probability is strong that higher productivity gains and growth will occur in the United States. It is also important to note that increased trade deficits and increased claims against our country, even if the capital inflows on balance promote long term growth, do create greater vulnerabilities to changes in global financial markets' views toward investment in the United States and they give rise to greater sectoral dislocations in our economy. All of this underscores the importance of having strong economic policies at home.

Mr. Chairman, trade contributes importantly to the economic health of this country. 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. Our economic well-being truly is inextricably linked to the rest of the world.

Moreover, trade with developing countries, which absorb 43 percent of our exports, is increasingly important to the United States. Trade deficits with low wage countries, such as most developing countries, are often seen by Americans as evidence that the United States cannot compete with low wage nations. While low wage countries are able to produce a range of low-

wage, low-skill items at lower cost than U.S. firms -- to the benefit of U.S. consumers -- this is not true across the board because the productivity of American workers allows them to compete, even given their higher wages. Moreover, the developing countries buy American goods such as airplanes, construction equipment, entertainment products, and hi-tech goods produced by high-wage, high-skill American jobs. Indeed, studies have shown that over the last several years, six out of ten of the jobs created have been high-wage jobs. As a highly productive and competitive economy, the United States can -- and does -- export to low wage countries, and increasing trade with these countries benefits our economy.

To put the same thing in conceptual perspective, trade is not a zero sum game. A nation does not "win" by exporting, and "lose" by importing. If a nation produces its relatively most competitive goods and services and then exchanges with other nations to obtain the relatively less competitive goods and services, the nation will be better off than it would be without trade.

In the natural course of trade, some industries will be buffeted by foreign competition. That means there will be dislocations for some, although I think it is worth observing that technology contributes far more to dislocations than trade. Thus, while trade benefits most, there is a risk to some. The answer to these problems is not to try to halt the inevitable tide of technology or globalization that has benefited so many. Instead, the answer is to equip all of our people to compete in the global economy, very much including those outside the economic mainstream in inner cities and distressed rural areas, through education and training; to help the dislocated re-enter the economic quickly and successfully through adjustment programs such as the North American Development Bank; and to have an appropriate social safety net where needed. Having said that, we all need to continue to focus on how best to help those who are hurt by the dynamic changes in our economy including trade and technology that greatly benefits the whole.

A forward-looking international economic policy to derive the full potential from trade and to best promote our exports of goods and services includes three components: First, continuing an aggressive effort to open markets and liberalize trade, as this Administration has done through Nafta, the WTO agreement, scores of other trade agreements and through strong enforcement of our trade laws. We estimate that U.S. exports have accounted for one-third of our nation's real growth during the recent economic expansion. The President has made clear he is committed to working with Congress to secure fast track negotiating authority so that we can pursue a trade policy that creates jobs and promotes higher standards of living and that, as the President said recently, will "harmonize our goals of increasing trade and improving the environment and working conditions."

Second, is promoting growth and reform in developing countries. By helping them continue on the path of reform, we help to build markets that already have been buying 40 percent of our exports.

Third, is to address financial instability, both when it occurs, and in the long term, by developing an architecture of the international financial system that is as modern as the market.

The IMF is critical both to promoting growth in developing countries and addressing financial instability. Those who are most concerned about the trade deficit ought to be among the strongest advocates of IMF funding. As its core mission, the IMF works to promote or reestablish financial stability and economic growth, helping to create the conditions where other countries have the economic strength to buy our goods, as well as solid currencies that do not provide undue competitive pressure for our goods and services in countries around the world. The IMF is especially critical to our economic well-being in countries experiencing severe financial instability and economic difficulty, both by helping those countries and by preventing contagion to other developing nations. Moreover, IMF programs, including the recent Asia reform programs, have long included significant trade liberalization measures which have the effect of opening foreign markets to U.S. goods and services.

Yet, as a result of the recent situation in Asia, the IMF's normal financial resources are approaching a historically low level, and the IMF does not have sufficient funds to deal with a truly major crisis, for instance if the Asian crisis were to worsen or if a new crisis were to develop. The probability of such events occurring is low, but if they occurred, the effect on our economy would be severe and we should not take the risk that such events could start to unfold and the IMF not have the capacity to try to cope effectively.

Mr. Chairman, with the help of your leadership, the Senate approved funding for the IMF by a vote of 84 to 16. We urge the House to follow suit as quickly as possible. The full IMF funding is needed now, to protect our economic and national security interests.

The key to prospering in the global economy is to maximize our productivity and competitiveness. That requires fiscal responsibility to keep interests rate down and maximize savings for investment, and investing in our people through education, training and other areas critical to future productivity. If we put all of these pieces together -- fully funding the IMF to promote financial stability, continuing to open markets to U.S. goods and services, promoting growth and reform in developing countries, and maintaining our strategy of fiscal discipline and investment in people -- all of which constitutes the basic economic strategy for the past five and a half years -- we have a recipe for economic growth, and for containing the trade deficit to a sustainable level over time. 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.
June 12, 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 $14,515 million of publicly held 52-week bills maturing June 25, 1998. This offering will result in a paydown for the Treasury of about $4,525 million. In addition to the maturing 52-week bills, there are $12,939 million of maturing publicly held 13-week and 26-week bills.

In addition to the public holdings, Federal Reserve Banks for their own accounts hold $11,769 million of the maturing bills. These accounts are considered to hold $4,915 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 $5,847 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 $2,719 million of the maturing 52-week issue.

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

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

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RR-2511

Attachment

HIGHLIGHTS OF TREASURY OFFERING OF 52-WEEK BILLS
TO BE ISSUED JUNE 25, 1998

June 12, 1998

<u>Offering Amount</u> .... $10,000 million

<u>Description of Offering</u>:
Term and type of security .. 364-day bill
CUSIP number .... 912795 BY 6
Auction date .... June 18, 1998
Issue date .... June 25, 1998
Maturity date .... June 24, 1999
Original issue date .... June 25, 1998
Maturing amount .... $19,430 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

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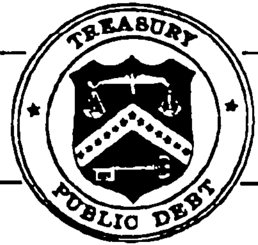

TREASURY SECURITY AUCTION RESULTS
BUREAU OF THE PUBLIC DEBT - WASHINGTON DC

FOR IMMEDIATE RELEASE
June 15, 1998

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Term:	91-Day Bill
Issue Date:	June 18, 1998
Maturity Date:	September 17, 1998
CUSIP Number:	9127944Z4

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate 1/	Price
Low	5.000%	5.135%	98.736
High	5.015%	5.151%	98.732
Average	5.010%	5.143%	98.734

Tenders at the high discount rate were allotted 23%.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 26,240,433	$ 4,048,273
Noncompetitive	1,275,527	1,275,527
PUBLIC SUBTOTAL	27,515,960	5,323,800
Foreign Official Refunded	450,693	450,693
SUBTOTAL	27,966,653	5,774,493
Federal Reserve	2,859,310	2,859,310
Foreign Official Add-On	65,007	65,007
TOTAL	$ 30,890,970	$ 8,698,810

Bid-to-Cover Ratio = 27,515,960 / 5,323,800 = 5.17

1/ Equivalent coupon-issue yield.

RR-2512

PUBLIC DEBT NEWS

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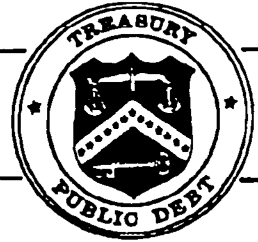

TREASURY SECURITY AUCTION RESULTS
BUREAU OF THE PUBLIC DEBT - WASHINGTON DC

FOR IMMEDIATE RELEASE
June 15, 1998

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Term:	182-Day Bill
Issue Date:	June 18, 1998
Maturity Date:	December 17, 1998
CUSIP Number:	912795AU5

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate 1/	Price
Low 2/	5.060%	5.265%	97.442
High	5.065%	5.271%	97.439
Average	5.065%	5.271%	97.439

Tenders at the high discount rate were allotted 72%.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 25,405,355	$ 4,234,835
Noncompetitive	1,105,594	1,105,594
PUBLIC SUBTOTAL	26,510,949	5,340,429
Foreign Official Refunded	1,913,907	1,913,907
SUBTOTAL	28,424,856	7,254,336
Federal Reserve	3,690,000	3,690,000
Foreign Official Add-On	276,093	276,093
TOTAL	$ 32,390,949	$ 11,220,429

Bid-to-Cover Ratio = 26,510,949 / 5,340,429 = 4.96

1/ Equivalent coupon-issue yield.
2/ $1,255,000 was accepted at rates below the competitive range.

RR-2513

PUBLIC DEBT NEWS

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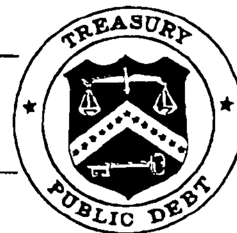

FOR IMMEDIATE RELEASE
June 16, 1998

Contact: Office of Financing
(202) 219-3350

TREASURY'S INFLATION-INDEXED SECURITIES JULY 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 July 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 through the Treasury's Office of Public Affairs automated fax system by calling 202-622-2040 and requesting document number 2514. The information is also available on the Internet at Public Debt's web site (http://www.publicdebt.treas.gov).

The information for August is expected to be released on July 14, 1998.

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Attachment

PA-354

RR-2514

TREASURY INFLATION-INDEXED SECURITIES
Ref CPI and Index Ratios for
July 1998

Security:	3-3/8% 10-Year Notes	3-5/8% 5-Year Notes	3-5/8% 10-Year Notes	3-5/8% 30-Year Bonds
Description:	Series A-2007	Series J-2002	Series A-2008	Bonds of April 2028
CUSIP Number:	9128272M3	9128273A8	9128273T7	912810FD5
Dated Date:	January 15, 1997	July 15, 1997	January 15, 1998	April 15, 1998
Original Issue Date:	February 6, 1997	July 15, 1997	January 15, 1998	April 15, 1998
Additional Issue Date:	April 15, 1997	October 15, 1997		
Maturity Date:	January 15, 2007	July 15, 2002	January 15, 2008	April 15, 2028
Ref CPI on Dated Date:	158.43548	160.15484	161.55484	161.74000

Date	Ref CPI	Index Ratio	Index Ratio	Index Ratio	Index Ratio
July 1 1998	162.50000	1.02565	1.01464	1.00585	1.00470
July 2 1998	162.50968	1.02572	1.01470	1.00591	1.00476
July 3 1998	162.51935	1.02578	1.01476	1.00597	1.00482
July 4 1998	162.52903	1.02584	1.01482	1.00603	1.00488
July 5 1998	162.53871	1.02590	1.01488	1.00609	1.00494
July 6 1998	162.54839	1.02596	1.01495	1.00615	1.00500
July 7 1998	162.55806	1.02602	1.01501	1.00621	1.00506
July 8 1998	162.56774	1.02608	1.01507	1.00627	1.00512
July 9 1998	162.57742	1.02614	1.01513	1.00633	1.00518
July 10 1998	162.58710	1.02620	1.01519	1.00639	1.00524
July 11 1998	162.59677	1.02626	1.01525	1.00645	1.00530
July 12 1998	162.60645	1.02633	1.01531	1.00651	1.00536
July 13 1998	162.61613	1.02639	1.01537	1.00657	1.00542
July 14 1998	162.62581	1.02645	1.01543	1.00663	1.00548
July 15 1998	162.63548	1.02651	1.01549	1.00669	1.00554
July 16 1998	162.64516	1.02657	1.01555	1.00675	1.00560
July 17 1998	162.65484	1.02663	1.01561	1.00681	1.00566
July 18 1998	162.66452	1.02669	1.01567	1.00687	1.00572
July 19 1998	162.67419	1.02675	1.01573	1.00693	1.00578
July 20 1998	162.68387	1.02681	1.01579	1.00699	1.00584
July 21 1998	162.69355	1.02688	1.01585	1.00705	1.00590
July 22 1998	162.70323	1.02694	1.01591	1.00711	1.00596
July 23 1998	162.71290	1.02700	1.01597	1.00717	1.00602
July 24 1998	162.72258	1.02706	1.01603	1.00723	1.00608
July 25 1998	162.73226	1.02712	1.01609	1.00729	1.00613
July 26 1998	162.74194	1.02718	1.01615	1.00735	1.00619
July 27 1998	162.75161	1.02724	1.01621	1.00741	1.00625
July 28 1998	162.76129	1.02730	1.01627	1.00747	1.00631
July 29 1998	162.77097	1.02736	1.01634	1.00753	1.00637
July 30 1998	162.78065	1.02743	1.01640	1.00759	1.00643
July 31 1998	162.79032	1.02749	1.01646	1.00765	1.00649

CPI-U (NSA) for :	March 1998	162.2	April 1998	162.5	May 1998	162.8

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED UNTIL 2:00PM EDT
Text as Prepared for Delivery
June 17, 1998

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

Madam Chairman, members of the Subcommittee, it is a pleasure to speak with you today about the Community Development Financial Institutions (CDFI) Fund. I am pleased to be joined by Ellen Lazar, the new Director of the CDFI Fund.

The CDFI Fund is a critical component of our strategy to promote private sector-led growth in economically distressed areas. I am here today to ask for your help in replenishing the Fund, and in working with us to continue to improve the Fund's operations, so that we can maximize its benefits to America's communities.

CDFIs are specialized financial institutions that serve economically distressed communities and underserved populations. They include credit unions, microenterprise funds,

development banks, and equity or loan funds that share this common mission: providing financial services to people and communities typically overlooked by traditional financial providers. For many years, institutions such as these have defied conventional wisdom by making loans to people that could not get financing elsewhere, and these borrowers have repaid with interest. CDFIs are often the pioneers in their communities, making leading edge investments based on their local knowledge, and demonstrating to traditional lenders that these are viable markets. CDFIs are expanding the reach of the private sector marketplace.

The role of the CDFI Fund is to further strengthen these institutions and to help new ones to grow. The Fund provides equity, loans, grants and technical assistance to CDFIs so that they can attract more investors and depositors, and make more investments and loans to hard working Americans who have been for too long left behind.

RR-2516

With CDFI, I believe we have a new, more market-driven approach to community development. By filling market niches and drawing mainstream financial institutions into low income communities through partnerships, CDFIs help to make our financial system work better for more Americans, no matter where they live or what their incomes might be.

The CDFI Fund has two main programs: the core CDFI program, which assists CDFIs, and the Bank Enterprise Award (BEA) program, which funds financial institutions that demonstrably increase their lending and other financial services in distressed communities. The two programs are complementary and mutually reinforcing. By working through local institutions, both programs respond to communities individual 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. The CDFI Fund is expanding access to credit and financial services in low income urban, rural, and Native American communities, areas where one of the biggest obstacles to economic growth is a lack of access to private sector capital.

Thus far, the Fund has awarded nearly $80 million to 81 CDFIs around the country. The leveraging of the federal investment is strong. The CDFI Fund investment must be matched at least one-to-one with non-Federal dollars. Though actual leverage numbers vary from institution to institution, let me give you one example how leverage works in a community development credit union: The Fund's investment and the match become part of the credit union's capital base, which enables it to raise additional customer deposits, all of which become credit union resources available for lending to its members. Industry-wide, community development credit unions have a loan-to-capital ratio of 6.65 to 1. In other words, each dollar of capital supports $6.65 of loans by the credit union. Because each federal dollar must be matched by a non-federal dollar, a $1 investment by the Fund has the capacity to generate $13.30 in loans by the credit union.

These investments are making a difference. The Fund is still in the process of developing a systematic approach to quantifying impact, but anecdotal evidence of the Fund's impact is available. 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.

I recently visited Self Help of North Carolina, which operates a credit union and a venture capital fund. The CDFI Fund's February 1997 $3 million investment has already enabled Self Help to effectuate $24 million in home mortgage and commercial lending transactions. Over the next five years, Self Help estimates that the CDFI Fund's award and matching funds will enable Self Help to provide more than $100 million to finance affordable housing and small business loans over and above what Self Help could have done without the Fund's investments.

I saw first hand how a young man who had been running a marginal fresh fish business, was able to get a $1,000 micro-loan from Self Help to buy a fish fryer and thereby offer a fast food menu to his customers. His business began to grow, and now he employs two full-time and two part-time workers. He has expanded by buying another fryer and a stove, and now he wants to borrow $15,000 to buy a refrigerated truck that will enable him to pick up his own fish. This is only one example of how much difference even a very small loan can make for a small business entrepreneur with creativity and drive to be financially successful, and that is one of the things that CDFIs can do very well.

I also had the opportunity to visit a distressed neighborhood in Durham, where Self Help was rehabilitating rental properties and selling them back to former tenants. I spoke to a minister there who told me that just a few years ago, no one dared to sit on their front steps or go down the street to the store for fear of becoming victims to drug-trafficking violence. But with funding from Self-Help and other sources, the neighborhood is now beginning to turn around. Houses are being repaired, and families have been given the opportunity to own their own homes for the first time. It has made the neighborhood safer, and has encouraged the homeowners to become more involved in their community.

Under the Bank Enterprise Awards 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 investments and support. 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.

In Kansas City, Missouri, for example, Central Bank was awarded nearly $100,000 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, the bank made a significant loan to help a major manufacturer and employer remain in the community.

Though the CDFI Fund has accomplished much in a short time, as with any new organization, there have been some growing pains. In my judgment, we have dealt with those problems thoroughly and effectively, and they are behind us.

Let me make just make a few points about the past:

First, we have had the benefit of extensive congressional oversight of the Fund's activities for more than a year. We have read Mr. Bachus's report on the CDFI Fund, which is a professional and thorough report. Although we disagree with certain aspects of the report, let me emphasize that congressional oversight has been useful and productive in helping the Department and the Fund to improve program operations.

Second, the Fund has significantly strengthened itself over the last year. It has strong internal controls, and we will continue to improve procedures as this program grows and matures.

comprehensive assessment of air and ground security ever conducted at the White House Complex. Following the review, I was appointed Deputy Assistant Secretary for Law Enforcement, with responsibility for assisting in oversight of the Department's law enforcement bureaus and offices. Shortly after my appointment as Deputy Assistant Secretary, I carried out the duties of the Under Secretary and Assistant Secretary for Enforcement while Assistant Secretary Johnson and Under Secretary Kelly were awaiting confirmation.

In my position, I have been involved in the Department's continuing effort to provide greater oversight to its law enforcement bureaus, and its effort to ensure that our bureaus maintain the highest standards of professionalism. Because of the sensitive nature of our law enforcement missions, I worked with the Under Secretary and Assistant Secretary to enhance our oversight of Treasury's law enforcement bureaus in numerous areas, including integrity and internal affairs matters, training, and equal employment opportunity issues. I have also assisted in guiding a comprehensive review of Treasury's Federal Law Enforcement Training Center -- an entity that trains nearly 80% of new federal law enforcement officers -- and in improving our continuing efforts to safeguard our Southwest Border against the influx of drugs and contraband. Indeed, just this week I was in Laredo, Texas where I had an opportunity to view the innovative efforts that Customs is employing at that very challenging port of entry.

My work at Treasury over the past four years has allowed me to understand the important missions of our enforcement bureaus and how these missions complement each other. Together, Customs and ATF collect nearly $37 billion in revenue. Customs also protects our nation from narcotics smuggling, maintains the integrity of the border, and enforces international trade laws. ATF targets violent criminals, firearms traffickers and arsonists. The Secret Service protects our nation's leaders and combats fraud. And OFAC and FinCEN enforce trade sanctions and help fight money laundering, respectively. These responsibilities help finance the government; protect our financial system from fraud, abuse, and instability; and ensure the safety of our nation and its people.

The Treasury agents, inspectors, and officers who carry out these missions embody the highest ideals of commitment, professionalism, and genuine public service. It will be a privilege to continue to serve Treasury and assist with the leadership of these women and men.

I am acutely aware of the broad and important responsibilities of the Office of Enforcement. I also believe my experience at Treasury, at the U.S. Attorney's Office, and as a lawyer in private practice will serve me well as Assistant Secretary, if confirmed. With the guidance of this Committee and the support of Secretary Rubin, I believe I am ready to meet the challenge. Thank you very much.

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The Fund has instituted a series of changes since the first round of awards in 1996, including a numeric scoring system, reviewer training, detailed application, review, and awards policies and procedures, documentation of awards files, clear conflict of interest policies, and other procedures. 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. (I am attaching a chart showing exactly where CDFI stands in its efforts to cure those deficiencies.)

Third, the CDFI Fund's award decisions have been based on the merits, after a rigorous review of track record, financial strength, the management team's skills and experience, the quality of the business plan, the ability to raise non-federal matching funds, and the potential for making a difference in their communities. From the beginning, I emphasized to Fund management that the Fund was to make its award decisions independently, on the merits. And that is the way the Fund's decisions were in fact made.

Finally, we are moving this program forward with the new leadership of Ellen Lazar and her new team, who I believe brings to the job the dedication, the many years of experience in community development, the discipline, and the energy needed to strengthen the CDFI Fund in the years ahead. In sum, Madam Chairman, we have a strong management team in place with the necessary skills and experience to ensure that the program meets high standards of accountability and performance, the Fund has strict awards procedures and sound infrastructure in place, and I believe that the Fund is well positioned to serve low income communities across the country.

Madam Chairman, the Fund's vision for stimulating private sector investment in distressed areas makes sense, 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 enact the CDFI Fund reauthorization, 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.

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DEPARTMENT OF THE TREASURY

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

EMBARGOED UNTIL 2:30 P.M.
June 16, 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 June 25, 1998. This offering will provide about $50 million of new cash for the Treasury, as the maturing publicly held 13-week and 26-week bills are outstanding in the amount of $12,939 million. In addition to the maturing 13-week and 26-week bills, there are $14,515 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 $11,769 million of the maturing bills. These accounts are considered to hold $6,854 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 $5,624 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 $2,905 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.

RR-2517

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HIGHLIGHTS OF TREASURY OFFERINGS OF WEEKLY BILLS
TO BE ISSUED JUNE 25, 1998

June 16, 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 AK 7	912795 AV 3
Auction date	June 22, 1998	June 22, 1998
Issue date	June 25, 1998	June 25, 1998
Maturity date	September 24, 1998	December 24, 1998
Original issue date	March 26, 1998	June 25, 1998
Currently outstanding	$10,383 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
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

June 16, 1998

The Honorable Newt Gingrich
Speaker
U.S. House of Representatives
Washington, DC 20515-4005

Dear Mr. Speaker:

I am writing to express my grave concern over H.R. 3097, the "sunsetting" bill that would effectively repeal the Internal Revenue Code without providing for its replacement. If presented to him, I would recommend that the President veto the bill.

The President stands ready to consider carefully all proposals to reform the tax system. He will evaluate these proposals by using four criteria: fairness, fiscal responsibility, impact on economic growth, and simplification. In contrast, it would be irresponsible for the Congress to enact legislation to terminate the tax code without having already provided a reform plan to replace it. Moreover, none of the proposals currently under discussion by Members of Congress meet the President's four criteria. At a time when the country is experiencing the strongest economy in a decade, we simply cannot allow that economy, the nation's fiscal discipline, and the well-being of its families to be put at risk.

Proposing to sunset the tax code is a deeply flawed idea that, if enacted, would harm our strong economy. Many families, for example, would refrain from buying homes because of the uncertain tax treatment of mortgage interest and property taxes (as well as other State and local taxes), that would harm current homeowners. Many businesses would hire fewer workers and make fewer capital investments because of uncertainties in how taxes would affect the return on productive assets. Furthermore, the uncertainty of the size of future receipts would raise the specter of increased Federal deficits which in turn would raise interest rates and weaken or destroy economic growth.

Adoption of this legislation would have many other harmful effects on the well-being of families. A family's health insurance would be threatened because the tax status of employer-provided health benefits would be uncertain. Hope Scholarships that make higher education more affordable for students would be in jeopardy as would child tax credits that help families with the costs of child-rearing. The structure of employer-provided pensions and tax incentives for retirement saving could be altered in ways that could harm retirement income security. In short, enactment of this legislation would create substantial risks to our economy and the American people.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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DIRECTOR FOR THE COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND
ELLEN W. LAZAR
SUBCOMMITTEE ON FINANCIAL INSTITUTIONS AND CONSUMER CREDIT OF THE
HOUSE COMMITTEE ON BANKING AND FINANCIAL SERVICES

Chairwoman Roukema, Congressman Vento 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 since January of this year. 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 Chairwoman Roukema , Ranking Member Vento and other Members of the Committee for your interest in the Community Development Financial Institutions Fund. 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 was created to address the critical problems of urban, rural and Native American communities that often lack adequate access to capital. The Fund's mission is to promote access to capital and local economic growth by directly investing in and assisting community development financial institutions (CDFIs) and expanding financial service organizations' lending, investment, and services within underserved markets. 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.

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There are significant capital gaps in distressed communities, and this market is not often recognized or well understood. This makes it difficult for conventional sources of capital to effectively serve low income people.

Despite the great strides that have been made 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: moving families from welfare to work, providing basic financial literacy skills, and training unskilled workers to become job ready and CDFIs help to serve the unmet needs of these communities.

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 help distressed communities become well functioning local economies.

The President and Congress working in partnership created the Fund in 1994. The Fund's vision, to create an America in which all people have fair and equal access to capital and financial services, and its market-oriented 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 citizens and communities as they seek to realize their full potential.

The Fund is making a difference in the lives of real people. In Charlotte, North Carolina, for example, the Fund has given a single mother of three the wherewithal to leave her abusive spouse and the money to service the debts caused by one of her children's past medical expenses. Through the School Workers Federal Credit Union, this woman -- a teachers aide who survives on a modest salary -- received a debt consolidation loan and has begun savings program. She has now been able to make a $1500 down payment on a house. The Credit Union, thanks to the $150,000 grant from the CDFI Fund it received last year, is now poised to help many others work their way out of debt and build assets for their future.

BUILDING STRONG AND EFFECTIVE MANAGEMENT SYSTEMS

Madame Chairwoman, let me now turn our efforts to strengthen management, and internal systems and procedures, and build in accountability at the Fund. All of us at the Fund and the Treasury 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. In

the Fund's first financial audit for Fiscal Years 1995 through 1997, it received an unqualified opinion from its outside independent auditors, KPMG Peat Marwick. As expected, the audit confirmed our previous findings that the Fund had material weaknesses in prior fiscal years. Attached as Exhibit 1 to this testimony is a matrix describing each material weakness, KPMG Peat Marwick's recommendations, our corrective action plan and the current status of these actions. Under separate cover we have provided the Subcommittee with the relevant documentation regarding the steps we've taken to address the material weaknesses. Using the Fund's Federal Managers Financial Integrity Act 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, we appointed 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. We have also begun hiring individuals to work with the program managers and to support our research and evaluation efforts.

A priority for the Fund during FY 1998 and FY 1999 will be to recruit, develop and retain highly qualified staff. Due to the unique and complex nature of the community development finance industry, the Fund requires a well trained and highly specialized staff. As we build and enhance our in-house capacity and expertise to meet the needs of the community development field, we will reduce our reliance on outside contractors. We will not employ management consultants in the future. With respect to future contracts, the Fund will be working closely with Treasury's Office of Management to ensure careful monitoring of all contracting, including contracting under Subsection 8(a) of the Small Business Act of 1958, as amended.

The Fund has begun to expand its post-award monitoring procedures to ensure compliance with the assistance agreements entered into between the Fund and Awardee and evaluate the impact of the Fund's awards. The Awards Manager will focus on audit and compliance monitoring. The program staff will focus on performance monitoring and review all finance status and performance reports. Exhibit 2 provides a fuller status discussion on post-award monitoring.

The Fund's management is conducting a rigorous review of the Fund's current five year strategic plan, goals and performance measures. 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 and consultation with the General Accounting Office and other stakeholders, as required by the Government Performance and Results Act, and I look forward to working with

the Subcommittee 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:

- stimulation of private markets is critical for rebuilding economically distressed areas;
- building the capacity of community based institutions is essential for providing localities with the tools necessary to serve many underserved communities; and
- an initiative that promotes private sector strategies to achieve public policy goals must be based on performance and maximizing impact.

The Fund has five 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.

The Fund began making awards in 1996. Exhibit 3 outlines obligations and disbursements under the CDFI and BEA Programs. During its 1996 and 1997 rounds, the Fund awarded a total of $77.6 million through the CDFI Program to over 81 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. Awards for FY 1998 rounds will be made in September. Most of the unobligated funds discussed in Exhibit 3 are reserved for our FY 1998 awards.

To facilitate the development of a national network of financial institutions that are dedicated to community development, the Fund has also provided significant support to start-up CDFIs. To date, 18% of the CDFI Program Awardees have been start up organizations that had been in existence for two years or less. In 1997, the Fund made more than $7 million

awards to three intermediary organizations to support the development of nascent CDFIs. Furthermore, the Fund has certified 233 organizations as CDFIs and has a pipeline of 48 applicants from organizations seeking to become CDFIs.

The Fund evaluates all organizations using the criteria established in the CDFI Program regulations -- track record, financial strength and current operations, capacity, skills and experience of the management team, quality of the business plan, and potential community development impact. In evaluating every applicant, the Fund conducts its analysis taking into consideration each applicant's performance and prospects given its stage of organizational development. In the case of start up organizations with no or minimal track records, the Fund places greater emphasis on the capacity, skills and experience of the management team.

ACCION Texas is an example of a start up with promise. ACCION, Texas was launched based on the findings of a 1993 market study of entrepreneurs in San Antonio which highlighted their critical need for credit. Though a start up organization, ACCION Texas clearly demonstrated that the capacity, skills and experience of its management team would result in a solid, successful CDFI. The Fund's $500,000.00 grant is assisting ACCION Texas in its efforts to expand service to more than 1,500 borrowers through loans totaling more than $3.8 million over a five year period. Approximately 70% of ACCION Texas' borrowers are Mexican-American and have businesses located in San Antonio's low-income neighborhoods.

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.

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TREASURY SECRETARY ROBERT E. RUBIN
SENATE BANKING COMMITTEE

Mr. Chairman, Senator Sarbanes, Members of the Committee, I welcome this opportunity to discuss financial modernization and its effects on our nation's economy and our citizens.

This Administration has been a consistent proponent of financial modernization. From the beginning, our overall objective has been to do what best serves the interests of consumers, businesses and communities. However, we oppose the bill that very narrowly passed the House, HR 10, because it does not meet that standard. Before I describe our concerns, let me make a couple of larger points regarding our financial system and financial modernization.

The nation's financial system is at the very heart of our economy. It accounts for 7.5 percent of our GDP and employs 5 percent of our workforce. It performs a critical function as an intermediary between savers and borrowers, between buyers and sellers of securities, and among insurance policyholders.

I should also note that the U.S. financial services industry is now as competitive as ever in recent memory. Abroad, the United States is dominant in investment banking and strongly competitive in other segments of financial services.

While our financial services industry is adapting and competing, with good financial modernization legislation that evolution could occur in a more coherent and orderly way But without legislation, our financial services industry will continue to adapt and U.S. firms will remain competitive abroad. It is worth noting that they can already engage abroad in the activities at issue in financial modernization legislation here at home. Thus, we have an important issue, but we are currently competitive and the crucial thing is to get the solution right. Because financial services are so important to our economy, legislation in this area should be adopted with broad-based support and address the full range of concerns surrounding financial modernization as fully as possible.

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Two recent developments need to be taken into account as legislation is crafted to meet all of the various concerns surrounding financial modernization. First, despite agreement on some issues, H.R. 10 has given rise to enormous controversy. It has pitted one industry against another. It is opposed by every major organization of banking institutions, and consumer and community groups have significant concerns, which I will return to in a few moments. While we must recognize that we will never achieve unanimity, we must build broad-based support for fundamental changes to a sector that is so central to the U.S. economy.

The second development is the announcement over the last several months of major mergers in the financial services industry. Each of these mergers should be judged by the appropriate regulators, but crafting the best possible legislation requires Congress to consider the impact of what may be a trend toward consolidation on the various concerns surrounding financial modernization.

In writing financial modernization legislation, you are, in effect, writing the constitution for the financial system of the next century. With that in mind, we believe any financial modernization proposal must meet five principles: it must protect the safety and soundness of our financial system; provide adequate consumer protection; reduce costs and improve access for consumers, businesses and communities; promote innovation and enhance the competitiveness of the financial services industry; and, finally, permit financial services firms to choose the corporate structure that makes the most business sense.

Mr. Chairman, in the context of these principles let me turn first to specific concerns the Administration has regarding HR 10. Then I will say a word about the more general concerns of others about financial modernization which I believe need to be addressed as fully as possible to improve the legislation and build broad-based support for legislation.

First, the bill discriminates against banks and in favor of insurance companies. For example, the bill would deprive the Office of Comptroller of the Currency of the judicial deference accorded to all other federal agencies whenever the OCC was considering an insurance question. Such discrimination would impede competition and innovation and would fail to serve the interests of consumers. That's one reason why all major bank organizations are on record in opposing this bill.

Second, the bill expands the Federal Home Loan Bank system without resolving that system's fundamental problems. We are in favor of a FHLB that helps communities, but this bill would not curtail the System's use of subsidized capital to earn arbitrage profits, and could expand the System's funding with subsidized capital of activities that have nothing to do with fostering home ownership or helping small and distressed communities.

Third, it would prompt the shifting of assets out of national banks and into holding company affiliates. This would reduce resources covered by the Community Reinvestment Act, a key tool in the effort to expand access to capital in economically distressed areas. H.R. 10 would undermine the remarkable progress that has been made in the areas of urban economic

revitalization and financing for affordable housing and small businesses -- nonprofit community groups estimate that since 1992 the private sector has pledged over $397 billion in loans for community development . As we work to modernize the financial system, we need to make sure it works for all communities.

Fourth and most significantly, the bill would force organizations that include banks to conduct new financial activities in bank holding company affiliates, and prohibit using subsidiaries of banks. We believe financial service firms here ought to be able to organize themselves in the way that makes the most business sense, just as businesses do across the economy, and not in a government dictated, one-size-fits-all structure. By restricting business choice, HR 10 would limit the ability of market participants to make their own judgments about how best to lower costs, improve services and provide benefits to consumers.

There are good business reasons why one firm may prefer operating through a subsidiary instead of an affiliate. Holding companies can be expensive to form, particularly for small banks, and restrictions on the activities of subsidiaries could therefore discriminate against such banks. In addition, bank management may wish to retain the earnings flows from a new venture generated by an existing line of the bank's business, or use the new venture to diversify earnings. Moreover, for reasons of corporate culture, management may wish to organize new financial services activities in subsidiaries.

If a bank should choose the subsidiary structure, that choice could have benefits for safety and soundness and the taxpayer. First, a bank wishing to commence a new activity would not have to deplete its resources by paying out its retained earnings in dividends for the holding company to use in capitalizing a new affiliate. Second, if the bank were to fail, the FDIC would have a claim on the bank's interest in the subsidiary -- something that is not true of an affiliate.

In short, to best serve the interests of consumers, businesses and communities, it is important that we avoid needlessly -- for no purpose -- restricting the choices businesses can make about how they structure their activities. Allowing business choice would not confer a competitive advantage or impair safety and soundness. There are safeguards that would ensure that a subsidiary structure and an affiliate structure are absolutely equivalent with regard to safety and soundness and use of the bank's funding subsidy, if such a subsidy exists. The bill reported out by the House Banking Committee included a number of such safeguards, including the following:

First, requiring the bank to be well capitalized and well managed, and to face sanctions if it fails to do so.

Second, requiring one hundred percent of the bank's equity investment in the subsidiary to be deducted from the bank's capital -- and requiring the bank to remain well capitalized even after the deduction.

Third, prohibiting the bank from making an equity investment in a subsidiary that would exceed the amount that the bank could pay as a dividend.

Finally, requiring that any loans by the bank to a subsidiary be subject to exactly the same limits as loans by the bank to an affiliate. Such loans would also have to be on market terms and fully secured by high-quality collateral.

With these safeguards in place, there is zero difference between conducting an activity in a subsidiary and in an affiliate with respect to safety and soundness or competitive advantage from any bank funding subsidy that may exist. That is why the FDIC has consistently concluded that the subsidiary structure poses no threat to safety and soundness. In fact, as to safety and soundness, under the Edge Act, many U.S. banks have long engaged overseas in investment and merchant banking through subsidiaries -- some of them very large -- and Edge Act subsidiaries are chartered and regulated by the Federal Reserve Board. Furthermore, for the reasons already discussed, the subsidiary is actually stronger than an affiliate from a safety and soundness perspective.

Our final objection to the bill is that the elected Administration is accountable for economic policy -- and bank policy is a key component of economic policy. Under H.R. 10, banks would gravitate away from the national banking system, and the elected Administration would lose its nexus with the banking system, thereby losing its capacity to affect bank policy.

Let me be clear: *supervision* of banks is -- and should be -- apolitical. Indeed, capital standards, reporting requirements, and examination procedures are already uniform regardless of which federal agency regulates the bank. But banking *policy* is a different matter. It is essential that any elected Administration have a voice in this important area of economic policy, and that they be held accountable to the public.

Mr. Chairman, let me turn now to the concerns that others have raised about this bill and financial modernization legislation in general. I believe that these concerns should be addressed as fully as possible to build broad-based support for this effort. Also, in addressing these concerns, I believe that Congress should take into account the possible impact of recent merger activity on the financial services industry. Many smaller, community-based banks are concerned about the growth of financial conglomerates, and the threat they pose to community banking. These concerns are exacerbated by the costs imposed by requiring community banks to form a holding company in order to conduct new non-banking financial activities. Community groups have raised concerns that concentration of the financial services industry could have an adverse impact on access to capital for lower-income communities. These groups have also expressed concerns regarding the impact on CRA, which I discussed earlier. Consumer groups are concerned about the adequacy of consumer protection against misuse of personal information and against overly aggressive marketing that would take advantage of consumers. Let me add that some have also expressed concern that the recent merger activity may raise new questions about the implications of concentration of economic and political power, which Congress may wish to consider in putting together financial modernization legislation.

Before concluding, let me say a word about the differences between Treasury and the Federal Reserve Board on the subsidiary issue. It is important to emphasize that Treasury and the Fed enjoy a remarkably positive working relationship on a broad array of issues, and that has been of enormous benefit to the nation. We have agreed to put this issue aside and not allow it to interfere with the very good cooperation between the Treasury and the Fed on other issues.

Mr. Chairman, we are committed to working with Congress and all of the relevant parties to thoughtfully and fully address the many serious issues that need to be resolved in order to have good legislation with broad-based support. Thank you very much.

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TREASURY DEPUTY SECRETARY LAWRENCE H. SUMMERS
SENATE COMMITTEE ON FINANCE

Mr. Chairman, it is a pleasure to testify before you today on proposals to forge a new trade and development relationship between the United States and the countries of Africa. The Partnership for Economic Growth and Opportunity in Africa which the President announced last year, and the Africa Growth and Opportunity Act passed by the House of Representatives, and now introduced in the Senate, have as their basic objectives supporting faster growth through expanded private investment and trade. The Administration fully supported that important legislation in the House, and is doing so in the Senate. We look forward to continuing this work, in a collaborative spirit, with your Committee and the entire Senate.

The Administration's initiative draws from ideas that were developed in the Congress and in Africa itself. More importantly, it is inspired by the profound changes that have been under way on the African continent since the beginning of this decade. These changes have altered the basic assumptions that previously underlay US policy in Africa:

- Markets can work in Africa as they do everywhere else, but the conditions and the policies must be right.
- We want to move from a donor-client relationship to one based on trade and investment ties for mutual advantage.
- We will be supportive of changes initiated by the African countries themselves. We want to offer Africans a "hand up" rather than a "handout".

Let us be clear: America has a powerful commercial and security interest in building stronger trade and investment ties with Sub-Saharan Africa. Those ties are not nearly as strong

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as they could be. Only 1 percent of our trade is with Africa, and slightly less than 1 percent of our direct investment abroad. With developing countries making a large contribution to our economy -- in a typical year buying around 40 percent of our exports, for example -- the largely undeveloped market of 660 million Africans represents an exciting opportunity, with great potential benefits to both sides.

We are convinced that the key to unlocking Africa's potential lies in helping African countries achieve higher levels of growth through trade and private investment. Bringing those countries into the global economy would give US firms and workers a wealth of marketing and supply opportunities, and offer reforming African countries themselves a path out of conditions that foster poverty, conflict, disease, and environmental degradation.

The Africa Growth and Opportunity Act enjoyed bipartisan backing in the House because it makes sense for America and for Africa. By offering expanded trade opportunities as well as specific congressional backing of this change in policy direction, it makes an important contribution to Africa's emergence as a continent with which we can do business. We support the market-opening provisions of this bill because the United States has a great deal to gain from a stable, prosperous Africa, and nothing to lose. This truly is a "win/win" opportunity for us. In my comments today I would like to focus on three points:

- First, on the changes that are taking place in sub-Saharan Africa, and the historic opportunity it presents for Americans as well as Africans.

- Second, on some of the lessons of past development success stories -- and failures -- showing how they point the way for our current efforts; and

- Third, I will talk in a more detailed way about the specific initiatives we are pursuing.

I. Africa: Change and Opportunity

Americans' views of Africa still are largely shaped by banner headlines telling us of yet another war or natural disaster. Such catastrophes are sobering reminders of how bad things can get in circumstances of economic and political despair. But they are far from the whole story.

President Clinton's visit to Africa in March went far toward showing America a different picture of Africa. It was an Africa that is eager for closer relations with the United States. It was an Africa where an enthusiastic crowd estimated at half a million turned out to hear him in Ghana – reportedly the largest such event in Ghana's history. It was an Africa that welcomed US involvement in areas as diverse as conflict resolution, education, and microcredits. The President and other American visitors have found reason to be encouraged. Parts of the continent are far more prosperous, vibrant, and forward-looking than they were just five years ago. A growing number of governments are taking concrete steps to encourage market-oriented, private sector-

led growth. US investment banks that would not have been around five years ago are now an active presence.

-- In the south, the end of apartheid and of the wars ravaging the region have created a remarkable change of atmosphere. South Africa has joined its neighbors in the Southern Africa Development Community (SADC) to work toward greater regional integration. Nearly as many US firms are present in South Africa as were there prior to the anti-apartheid boycott. Mozambique ended its devastating civil war, made a commitment to market-oriented reform, and has completely privatized its banking sector. We were very excited to hear, Mr. Chairman, that Mozambique's growth was 12.8% in 1997, while inflation fell to 2%.

-- In the west, the francophone countries, led by Cote d'Ivoire, ended the long-standing (and debilitating) overvaluation of their currencies in 1994 and undertook supporting changes in trade policy, the banking industry, and commercial law and practice. These eight countries now are on the way to creating a true economic community of nearly 60 million people based on a common currency, a single central bank, a regional stock exchange, and a customs union. The agricultural economy has rebounded and new industries, such as oil and gas, are growing. Over 50 US firms are represented in these countries. Growth in Cote d'Ivoire and others is in the 5-7% range.

– In the east, Uganda, Kenya and Tanzania have revived their regional association, representing a combined market of about 70 million. Uganda has been growing at an average rate of about 8% in recent years; Nairobi is East African home base for 75 US firms.

– Central Africa is a more difficult proposition, with the legacies of ethnic strife and corruption still to be overcome. Even here, however, US and other private investors have been pursuing opportunities to develop the region's enormous mineral resources. A more supportive US trade policy would be an important part of any effort to encourage economic and political reforms.

– In Nigeria, following the recent death of Gen. Abacha, the country has another chance to fulfill its great promise as an "African Giant." The new leadership has an opportunity to pull together all of Nigeria's people in support of a credible and open transition to democratic civilian government that respects the rights of its people. We urge the new leadership to make a sustained commitment to political and economic reform, and we pledge American support if they do.

Changes like these -- in outlook as well as events on the ground -- give reason to believe that democracy and economic reform can take root in sub-Saharan Africa. In recognition of the changes and the opportunities that lie ahead, Secretary Rubin is planning a visit to the region July 11-19. He expects to stop in Cote d'Ivoire, South Africa, Mozambique, and Kenya. The purpose of the trip is to advance the initiatives put forward by the President, especially in the financial

sector, and to convey America's willingness to do what we can to help integrate African reformers into the global economy.

Yet the roots of democracy and reform are young, and continued growth is far from guaranteed. The question is, how can we help countries that have begun to grow to continue their upward climb -- and thereby show the way to others?

II. Lessons on Development

Some would say there is little or nothing we can do. Africa, in their view, is different: somehow incapable of achieving the same kind of economic take-off we've seen in other regions of the world. It is worth recalling that in 1961 Gunnar Myrdal, the Nobel-Prize winning economist, wrote a 2,200-page book bemoaning his subject's poor export prospects, which, in turn could be traced to factors such as heavy dependence on trading primary goods. All very much in line with the prevailing thinking. And all very wrong. For the region he was talking about was not Africa, but East Asia.

Africa's performance in the '60s, '70s, and '80s certainly was poor. In 1960, Korea was no richer than Sudan, and Taiwan was as poor as Zaire. By 1995, per capita incomes in Korea and Taiwan were more than 25 times higher than in sub-Saharan Africa. Today, on the brink of the new millennium, at least 40 percent of Africans still live on a dollar a day or less. In some parts of the continent, a child is more likely to be malnourished than learn to read, and more likely to die before the age of 5 than go to school.

But are the "Afro-pessimists" right that to say this dismal outcome was inevitable? Careful studies of Africa's growth performance suggest not. They find that slow African growth can be traced to three broad factors, all of which have afflicted the region to a greater degree than elsewhere, but none of which could be said to be an immovable part of the landscape.

-- The first problem is political instability. Nearly 15 percent of the sub-Saharan population lives in countries that were severely affected by civil war during the '90s. A much larger fraction lives in countries where investors cannot be confident of a stable political environment and property rights are insecure. It is noteworthy that Africa's standing has deteriorated both relatively and absolutely on international scales of political risk.

-- The second major factor impeding growth has been chronic macroeconomic instability. While inflation has come down in the last several years, inflation rates in many African countries have been well into double digits for much of the last two decades.

-- Third, and, clearly related to the first two impediments to growth, have been policies that grossly distort the allocation of Africa's resources. These include export taxes; high tariff and non-tariff trade barriers; excessive, and mismanaged, government intervention in the economy;

and corruption. The evidence suggests that by far the most damaging of such policies are those that distort or cut off African countries' economic relations with the outside world.

Economies cannot work well in these kinds of environments. Nor can (or should) foreign aid make up the difference. Assistance to governments pursuing the wrong policies actually can be counterproductive, by encouraging public investment that crowds out private investment and allowing governments to postpone painful, but necessary, structural reforms. A recent World Bank study found that aid in fact slows growth in such distorted environments. But where policies are sound, the same study found aid had made a real difference.

III. The Administration's Partnership

The Administration's Partnership for Economic Growth and Opportunity in Africa represents a concerted effort to respond to the recent changes in the region, the lessons of the development record, and our knowledge of the tools we have to help accelerate a transition to economic vitality. We are pursuing an approach with four main components:

1. Expanded market access
2. Strengthened assistance programs and debt relief to restore financial viability.
3. Concerted efforts to nurture private sector development and investment
4. Enhanced dialogue with African countries.

I should stress that these four elements comprise an integrated whole. It makes little sense to provide assistance to Africa's private sector in our aid programs if we deny African business access to our market. Likewise, we cannot credibly urge African governments to liberalize their trade regimes for the private sector's benefit if we are unwilling to liberalize our own. But taken together, these four elements provide an attractive package of incentives to reform. If any are omitted, the package is less compelling and less useful.

1. *Expanded Market Access*

The Administration fully supports the Africa trade legislation now before the Senate. It will put us in a position to make the best use of the most potent development tool we have: our private sector and its ability to create productive investments. The bill would be fully consistent as well with the U.S. economic strategy of promoting trade with Emerging Market countries. In the last four years, one-third of our economic growth has come from exports, 40% of which typically go to developing countries.

At present, the United States has only a 7% share of Africa's markets -- far smaller than in other areas of the developing world. We have a long way to go to improve that position, given Europe's overwhelming market share (over 41%) arising from its historical ties with Africa. Yet the potential is substantial: exports to sub-Saharan African countries already exceed $6 billion,

and support 100,000 American jobs -- more trade than we have with all the countries of the former Soviet Union combined.

To encourage further trade with the United States, while promoting opportunities for growth in Africa, the legislation would offer better access to US markets for African exports under a renewed and expanded GSP program. For countries willing to embark on more aggressive trade reforms, the bill would provide authority for the President, after consultation with the U.S. International Trade Commission, to grant GSP treatment for some products which are currently excluded, such as textiles and leather goods. These industries are vitally important to developing countries, which typically use them as the first stepping stones toward industrialization.

Critics have raised fears that this step would facilitate illegal transshipment of textiles and apparel, especially from Asia, through Africa, to the US market. But the bill contains a number of safeguards that are designed to deal with the problems of transshipment.

Another issue raised by critics is that of job losses. A recent study by the International Trade Commission found that US textile and apparel imports from sub-Saharan Africa represent only 0.62%, less than two-thirds of one percent, of our total imports of such goods. The ITC estimates that the proposals in the Africa Growth and Opportunity Act would increase this figure by 25-50%, yet the resulting total still would be only about 1% of our imports. Direct job losses due to such increased imports might total approximately 650. Of course, this figure excludes net job <u>gains</u> we would be likely to achieve by increased exports to a more prosperous Africa. Once again, the legislation contains safeguards against import surges, including a prominent ITC role.

While the U.S. economy would not be harmed by the trade provisions in the legislation, the gains to African countries, even from these small amounts of trade, can be significant. In Mauritius, for example, per capita income has more than doubled in the fifteen years since creation of the export processing zone, and much of that gain resulted from textile production.

Clearly, Mr. Chairman, the trade provisions in this legislation are practical examples of the power of competitive markets to produce effective development. We have a chance in this legislation to put market forces more fully into play in sub-Saharan Africa.

I should note also that, over the long term, we would expect market–opening initiatives on both sides to culminate in negotiations for the creation of free trade areas. We fully agree with the authors of the House bill that trade liberalization with such an objective in mind can be a strong catalyst for market liberalization.

2. Targeted financial assistance and debt relief

<u>Targeted Support by International Financial Institutions</u>. Even with greater trade opportunities, external finance on concessional terms remains vital for a continent that lacks

sufficient savings of its own, and that depends heavily on trade taxes to finance government operations. The concessional financing available through the IMF's Enhanced Structural Adjustment Facility, the World Bank's IDA, and the African Development Fund provides such support to reforming countries, leveraging our own contributions at a ratio of about 6 to 1 with those of other donors.

As with our own approach to African trade policy, the IFIs are recognizing that financial support must be conditioned on reforms and allocated more selectively to countries committed to doing the most to help themselves. Such reforms must be market-oriented, designed to reduce the intrusive role of the African state and create an environment in which domestic and foreign private investment can work. High on the list of priorities for the IFIs at making such determinations are the quality of governance, the level of transparency, and the attention given to combating corruption. We are gratified that both the IMF and World Bank are pursuing these issues with real vigor.

These institutions already are directing a larger share of their programs to the better economic performers. In the World Bank's fiscal years 1994-96, for example, its concessional lending window, the International Development Association (IDA), committed about 60% more funding on a per capita basis to the strongest performers than it did to average performers. In the previous three-year period, that differential was only 20%. IDA's goal is to limit the average per capita allotment to its worst-performing borrower countries to one-third the normal level for poor borrowers.

The point has been made in Congress on other occasions but let me say it again: the United States must meet its financial obligations to the institutions that we have asked to join us in this extraordinary effort to help Africa. With last month's historic agreement to reform the governance of the African Development Bank, we now have an excellent opportunity to deploy this uniquely African institution in support of the same reform objectives.

Debt relief for strong reformers: Despite reforms in Africa and reformed practices within the International Financial Institutions, there is a heavy burden of debt from past mistakes. The US has taken a stand at the World Bank, the IMF, and other multilateral organizations to ensure that deep relief is provided to eligible bold reformers within the framework of the Paris Club and the new program for Heavily Indebted Poor Countries (HIPC). I want to stress that conditional relief is key: debt relief is ineffective unless countries pursue sustained reforms necessary for growth.

The international community, both public as well as private sectors, has provided debt reduction totaling $35-40 billion over the past decade for the poorest countries, most of them in Africa. An additional $40 billion in relief is expected under current mechanisms, including Paris Club action under "Naples Terms" and action by all creditors under HIPC.

In addition, President Clinton is seeking appropriations that would make possible not just

the reduction, but the extinction of eligible reformers' bilateral concessional debt to the United States. We are calling on all donors to join us in this effort.

As you know, we agreed last year that Uganda -- a country with an impressive track record of sustained reform -- will be the first to benefit from the HIPC program. The agreement means that about $650 million in nominal tax revenues that would otherwise be owed to creditors will now be available for investment, such as in universal primary education -- a major goal of President Museveni. Cote d'Ivoire, Burkina Faso, and Mozambique also have been declared eligible, and we expect Mali and possibly others to follow this year.

We have structured debt relief in order to leverage reform. But to encourage a sustained political commitment to reform, we have encouraged other donors and the international financial institutions to provide interim relief as a reward for reforms under way, until the HIPC relief becomes fully effective.

3. Nurturing private sector development and investment

The Administration is developing a range of measures designed to encourage maximum private sector development in reforming countries at minimum budgetary cost. Foremost among these will be two new funds supported by the Overseas Private Investment Corporation (OPIC), which had their origins in proposals in the Africa Growth and Opportunity Act. The first, launched in December, is a $150 million fund designed to invest in productive enterprises, drawing on $100 million of OPIC-guaranteed private credits and another $50 million of private equity funds that are fully at risk. The second will be a $500 million infrastructure fund that still is being put together. Countries pursuing the deepest market-oriented reforms are likely to capture the lion's share of investments supported by these funds.

USAID also is implementing its Initiative for Southern Africa, designed to support trade and private investment. This program devotes up to $30 million annually to promoting trade and transportation protocols, harmonization of investment policies, and strengthening of regional business associations within the Southern African Development Community (SADC).

We are particularly interested in building on the very promising experiences that USAID and other organizations have had with micro-credit programs. These are often a very cheap and effective way to spur the development of small-scale businesses, particularly among groups -- notably women -- who would not otherwise have access even to very small amounts of credit. I myself have seen the results in South Africa, visiting a home in Soweto which the family had bought on the proceeds of a very fast-growing auto fender repair business. It all started with a very modest USAID loan.

In addition, USAID is providing technical assistance to African governments to help them take advantage of the new trade preference programs that would be available to them, and help reforming countries become more fully engaged in the WTO.

The Export-Import Bank is tailoring its programs to the challenges many African countries present. In the first such visit in many years, Chairman Harmon recently went to Africa to underline the Bank's readiness to work with creditworthy private companies to structure asset-backed and project finance deals even in countries where the public sector is not deemed creditworthy. I would also note that the Chairman of the Bank's new Advisory Committee on Africa is a former member of Congress, the Rev. Floyd Flake. This committee also was first suggested in the Africa Growth and Opportunity Act.

4. Enhanced dialogue

To focus high-level official and public attention on the African countries that are taking bold reforms, and to exchange views about what is working well and what is not, the legislation before you suggests, and the Administration is planning, annual cabinet-level meetings with the strongest-performing sub-Saharan countries. The first such meeting is being planned this coming December in Washington.

This kind of high-level dialogue, backed by continuing discussions at the technical level, will help ensure that the Partnership is achieving its objectives. We at the Treasury have been experimenting with such a dialogue at the sub-Cabinet level for the last two years with a number our African counterparts, and we are encouraged at the possibilities.

IV. Conclusion

Mr. Chairman, the Administration and many in Congress have devoted more constructive thought and energy to improving America's economic relations with Sub-Saharan Africa over the past two years than at any time in our history. With our G-8 colleagues, we also have made Africa a prominent subject for discussion at our annual summits, and we are encouraging other countries to follow a similar approach to maximize the impact in Africa. That we have done so says something about US priorities, and about our strong belief in embracing the new global economy and supporting the development of emerging, and potentially emerging, markets.

As we have emphasized repeatedly, however, our determination to develop closer ties with this long stagnant region also reflects the changing times in Africa itself. African governments want the kinds of support that will help them to help themselves, and propel growth rather than plug gaps. Primary among these are open markets and private sector investors, the two core elements of the African Growth and Opportunity Act as well as the President's Partnership.

In short, Mr Chairman, we urge the Senate to join us in a bold initiative to help sub-Saharan countries get back into the global economy and back on the road to growth. It is an ambitious program; success, certainly, is not guaranteed. But from what we know about the development process we can be at least cautiously optimistic that the four-pronged strategy I have outlined today could help Africa make that long-awaited transition to commercial vitality

and growth. We look forward to working with you, Mr Chairman, with members of this committee, and with others in the Senate to help make this hope a reality. I would now welcome any questions that you might have. Thank you.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR IMMEDIATE RELEASE
June 17, 1998

STATEMENT BY TREASURY SECRETARY ROBERT E. RUBIN

This morning, the Prime Minister of Japan outlined his Government's plans to restore the health of the Japanese financial system and to strengthen domestic demand. We look forward to implementation of a comprehensive action program that will create the conditions that are essential for a healthy and prosperous economy. Japan has the financial resources and the capacity to deal with the challenges it faces. Asia and the international community as a whole have a large stake in Japan's success.

In the context of Japan's plans to strengthen its economy, the U.S. monetary authorities operated in the exchange market this morning in cooperation with the monetary authorities of Japan. We are prepared to continue to cooperate in exchange markets, as appropriate.

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EMBARGOED UNTIL 12:15PM EDT
Text As Prepared for Delivery
June 17, 1998

ASSISTANT SECRETARY FOR FINANCIAL MARKETS GARY GENSLER REMARKS TO THE CONFERENCE ON YEAR 2000 TESTING FOR THE U.S. TREASURY SECURITIES MARKET

I. Introduction

It is a real pleasure to be with you today to discuss one of the great challenges now facing the financial markets -- the Year 2000 computer problem. I would like to thank the Federal Reserve Bank of New York and The Bond Market Association for joining us in organizing this very important conference.

The American financial markets are the most sophisticated and highly developed in the world. This is something of which we should all be proud. In my short time at the Treasury Department, I have become even more aware of the leadership role that our financial markets play in setting standards throughout the world. At the heart of developments in our financial markets, lie advancements in computers and communications technology. Technological developments have spurred a proliferation in products and market activity, and have fostered improvements in service and in the speed with which transactions take place. We also should recognize, however, that today's financial markets are highly complex and interdependent. All of these factors highlight the importance of making Year 2000 readiness one of our highest priorities.

Our focus today is the Treasury market, and the efforts that we all must make in order to avoid disruption of this critical market when the Year 2000 arrives. I would like to review with you some of the steps that the Administration is taking to address the Year 2000 problem. I will then discuss the testing that we are asking all of you to undertake.

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

II. Clinton Administration Efforts

Treasury's efforts to prepare for the Year 2000 are part of an Administration-wide initiative. President Clinton and Vice-President Gore have recognized the importance of immediate action in this context. They have directed Federal agencies to do everything necessary to ensure that the Government's mission-critical systems will continue to function effectively as we move into the 21st century. On February 4 of this year, the President's Council on Year 2000 Conversion was established to coordinate the Government's efforts to address the Year 2000 problem. The Government estimates that it will spend approximately $5 billion, from fiscal years 1996 to 2000, to make its systems Year 2000 compliant.

Internally, Federal agencies are working to ensure that our own systems are ready for the Year 2000. Externally, we are making inventories of all data exchanges with outside partners. We are also reaching out to increase awareness of the problem and to offer support to minimize Year 2000 disruptions.

III. Treasury Department Efforts

On Friday, December 31, 1999, the Treasury Department is scheduled to make principal and interest payments of $35 billion. We are also scheduled to issue securities on that date. On Monday, January 3, in the year 2000, we currently plan to conduct our usual weekly Treasury bill auctions. Treasury is committed to taking all the necessary steps to avoid any major disruption on that first trading day of the new millennium. As both the issuer and the regulator in this market, we are responsible for maintaining market liquidity and safety, as well as ensuring that government securities brokers-dealers are addressing Year 2000 readiness.

The Treasury and the Federal Reserve have made internal efforts to test all of our various systems. Specifically, the Bureau of Public Debt has identified 14 critical securities-related systems and has established a schedule of target dates for those systems to become fully compliant. The critical systems include the national book entry system, its auction and trading systems, the Fedwire system, and Treasury DIRECT. Fortunately, nine of the 14 systems were designed compliant. Twelve of the 14 already have the appropriate coding, and are in the testing phase. We expect to complete both code testing and interface testing for all but one of the systems by the end of 1998. In addition, we are developing plans of action in case any of the systems do not function as we hope they will.

Another step we are taking is the publication of a proposed rule under the Government Securities Act. The rule will require reporting on Year 2000 readiness for approximately 25 specialized government securities broker-dealers. The rule is based on the SEC's temporary rule amendment to SEC rule 17a-5, which covers general purpose broker-dealers.

IV. Year 2000 Readiness Testing

We are also helping market participants to focus on the Year 2000 by encouraging them to undergo Year 2000 readiness testing. This conference is an important part of that effort. The testing plans give you the opportunity to test critical applications used to transact business in the Treasury securities market, in future-dated environments. We urge you to test your

automated front-end and back-end interfaces, both with Federal Reserve applications, and with others in the market. We also urge you to undertake testing both for auctions and for secondary market transactions. Such testing should ensure that transactions can be processed from end-to-end. The proposed testing offers flexible schedules and multiple opportunities to test input and/or output. Your participation in these tests is crucial.

The panels for this conference underscore the breadth of this market and the many interconnections and dependencies of the participants. Given the many participants in this market, it is vitally important for you to make sure that your testing plans include all relevant players.

V. Conclusion

Treasury and the Federal Reserve are committed to working with you to address Year 2000 readiness. If you identify additional testing needs or discover other relevant information, please share that information with us and with each other. The contact at Treasury for these issues is Carl Locken. In addition, you will find in your program materials a contact list of key market participants involved in Year 2000 readiness testing. We encourage you to make use of those resources.

Let me conclude by thanking you for your efforts to date. The financial industry has been working very hard to solve the Year 2000 problem. In particular, I want to recognize the substantial volunteer efforts of many firms that participate in industry groups working on Year 2000 issues. I have every confidence that if we continue to work together and successfully complete the testing phase, we will have a Treasury market that functions effectively as we enter the 21st century. Thank you very much.

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EMBARGOED UNTIL 2:30 P.M.
June 17, 1998

CONTACT: Office of Financing
202/219-3350

TREASURY TO AUCTION 2-YEAR AND 5-YEAR NOTES TOTALING $23,000 MILLION

The Treasury will auction $12,000 million of 2-year notes and $11,000 million of 5-year notes to refund $32,002 million of publicly held securities maturing June 30, 1998, and to pay down about $9,000 million.

In addition to the public holdings, Federal Reserve Banks hold $2,648 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 $4,788 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.

If the auction of 2-year Treasury notes to be held Tuesday, June 23, 1998, results in a high yield in a range of 5.875 percent through and including 5.999 percent, the 2-year notes will be considered an additional issue of the outstanding 5-7/8 percent 5-year notes of Series M-2000 (CUSIP No. 912827U42) originally issued June 30, 1995. The additional issue of the notes would have the same CUSIP number as the outstanding notes, which are currently outstanding in the amount of $12,464 million.

If the auction results in the issuance of an additional amount of the Series M-2000 notes rather than a new 2-year note, it will be noted at the bottom of the Treasury's auction results press release.

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Attachment

HIGHLIGHTS OF TREASURY OFFERINGS TO THE PUBLIC OF
2-YEAR AND 5-YEAR NOTES TO BE ISSUED JUNE 30, 1998

June 17, 1998

<u>Offering Amount</u>	$12,000 million	$11,000 million
<u>Description of Offering</u>:		
Term and type of security	2-year notes	5-year notes
Series	AE-2000	H-2003
CUSIP number	912827 4J 8	912827 4K 5
Auction date	June 23, 1998	June 24, 1998
Issue date	June 30, 1998	June 30, 1998
Dated date	June 30, 1998	June 30, 1998
Maturity date	June 30, 2000	June 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	December 31 and June 30	December 31 and June 30
Minimum bid amount	$5,000	$1,000
Multiples	$1,000	$1,000
Accrued interest payable by investor	None	None
Premium or discount	Determined at auction	Determined at auction
<u>STRIPS Information</u>:		
Minimum amount required	Determined at auction	Determined at auction
Corpus CUSIP number	912820 DB 0	912820 DC 8
Due date(s) and CUSIP number(s) for additional TINT(s)	Not Applicable	June 30, 2003 <u>912833</u> RX 0

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

<u>Submission of Bids</u>:

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

Competitive bids ....(1) Must be expressed as a yield with three decimals, e.g., 7.123%.
(2) Net long position for each bidder must be reported when the sum of the total bid amount, at all yields, and the net long position is $2 billion or greater.
(3) Net long position must be determined as of one half-hour prior to the closing time for receipt of competitive tenders.

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

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

<u>Receipt of Tenders</u>:

Noncompetitive tenders ...Prior to 12:00 noon Eastern 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

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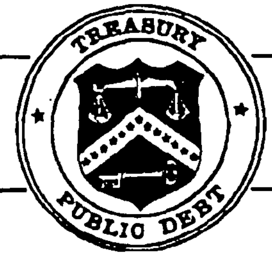

TREASURY SECURITY AUCTION RESULTS
BUREAU OF THE PUBLIC DEBT - WASHINGTON DC

FOR IMMEDIATE RELEASE
June 18, 1998

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 52-WEEK BILLS

Term:	364-Day Bill
Issue Date:	June 25, 1998
Maturity Date:	June 24, 1999
CUSIP Number:	912795BY6

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	5.130%	5.413%	94.813

Tenders at the high discount rate were allotted 34%.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 40,844,353	$ 7,874,015
Noncompetitive	981,764	981,764
PUBLIC SUBTOTAL	41,826,117	8,855,779
Foreign Official Refunded	1,302,000	1,302,000
SUBTOTAL	43,128,117	10,157,779
Federal Reserve	4,915,000	4,915,000
Foreign Official Add-On	0	0
TOTAL	$ 48,043,117	$ 15,072,779

Bid-to-Cover Ratio = 41,826,117 / 8,855,779 = 4.72

1/ Equivalent coupon-issue yield.

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FOR IMMEDIATE RELEASE
June 19, 1998

Contact: Susan Sallet
(202) 622-2920

TREASURY DEPARTMENT KIOSKS BRING CAREER INFORMATION TO COLLEGE CAMPUSES

The Treasury Department is sending this week 20 touch-screen computer kiosks to five Historically Black Colleges and Universities (HBCUs) and 15 members of the Hispanic Association of Colleges and Universities (HACU). The kiosks provide up-to-date information on nationwide employment and internship opportunities in the federal sector and at the Treasury Department.

"In today's growing economy, it is more important than ever for employers in the public and private sectors to hire and retain the best people they can," Secretary Robert E. Rubin said. "By connecting us to a greater range of people, this new initiative will both make Treasury stronger and make more young people aware of these opportunities."

The five HBCUs receiving touch-screen kiosks are: Howard University; Jackson State University (Jackson, MS); North Carolina Central University; Morris Brown College (Atlanta, GA); and, Southern University and A&M College (Baton Rouge, LA). The members of HACU receiving kiosks include: Miami-Dade Community College (Wolfson and Kendall Campuses); University of Miami at Coral Gables; California State University, Fresno; University of California, Los Angeles (UCLA); John Jay College of Criminal Justice (New York); City College, City University of New York; Metropolitan State College of Denver; Universidad Intermericana de Puerto Rico (Metropolitan Campus, Rio Piedras); Pontifical Catholic University of Puerto Rico (Ponce); American University of Puerto Rico (Bayamón and Manatí Campuses); University of Illinois at Chicago; Laredo Community College (Texas); and, Texas A&M University (Laredo). The majority of these universities have at least 25 percent Hispanic enrollment.

This program was designed to provide employment information to students who do not have access to computers or the Internet. The information in the kiosks is updated daily through dedicated telephone lines by the U.S. Office of Personnel Management (OPM), and students can access and print all necessary forms and announcements from the terminals. In 1997, OPM purchased twelve touch-screen computer kiosks and placed them in six institutions with a high enrollment of Hispanic students and six HBCUs.

"These kiosks will provide a direct link between the Treasury Department and these schools," said Nancy Killefer, Assistant Secretary for Management and Chief Financial Officer for the Treasury Department. "We can't be everywhere, but technology can certainly get us to more places."

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FOR IMMEDIATE RELEASE
June 19, 1998

Contact: Office of Public Affairs
(202)622-2960

**STATEMENT OF TREASURY SECRETARY ROBERT E. RUBIN
AND IRS COMMISSIONER CHARLES O. ROSSOTTI
ON THE IRS REFORM LEGISLATION**

Today we took a major step forward toward an IRS that best serves the American people.

We are pleased that we have been able to work with the Congress to produce legislation that continues the important reforms to make the IRS work better for the American people. This legislation will help the great majority of taxpayers who voluntarily meet their tax obligations each and every year without offering encouragement for noncompliance.

The Administration and the Congress worked together to create an Oversight Board with private sector input and Executive Branch accountability, provide personnel flexibilities to best enable the IRS to recruit high-quality employees, and protect important taxpayer rights such as the protection of innocent spouses, the burden of proof for court cases, and the suspension of interest and penalties. There remains today the issue of how to pay for these important reforms, and we will continue to work with the conferees to address this issue.

We congratulate the conferees, the Congress and the IRS Restructuring Commission on their important work on this issue.

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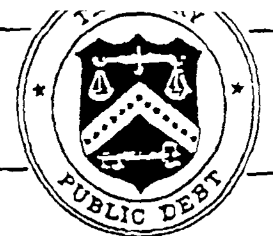

TREASURY SECURITY AUCTION RESULTS
BUREAU OF THE PUBLIC DEBT - WASHINGTON DC

FOR IMMEDIATE RELEASE
June 22, 1998

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Term:	91-Day Bill
Issue Date:	June 25, 1998
Maturity Date:	September 24, 1998
CUSIP Number:	912795AK7

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate 1/	Price
Low	4.970%	5.102%	98.744
High	4.995%	5.131%	98.737
Average	4.990%	5.122%	98.739

Tenders at the high discount rate were allotted 39%.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 31,922,394	$ 4,291,825
Noncompetitive	1,229,542	1,229,542
PUBLIC SUBTOTAL	33,151,936	5,521,367
Foreign Official Refunded	255,059	255,059
SUBTOTAL	33,406,995	5,776,426
Federal Reserve	3,289,235	3,289,235
Foreign Official Add-On	100,341	100,341
TOTAL	$ 36,796,571	$ 9,166,002

Bid-to-Cover Ratio = 33,151,936 / 5,521,367 = 6.00

1/ Equivalent coupon-issue yield.

RR-2548

PUBLIC DEBT NEWS

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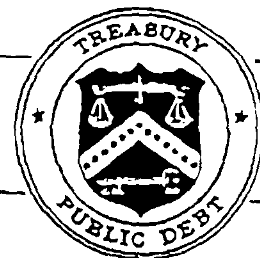

TREASURY SECURITY AUCTION RESULTS
BUREAU OF THE PUBLIC DEBT - WASHINGTON DC

FOR IMMEDIATE RELEASE
June 22, 1998

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Term:	182-Day Bill
Issue Date:	June 25, 1998
Maturity Date:	December 24, 1998
CUSIP Number:	912795AV3

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate 1/	Price
Low	5.105%	5.313%	97.419
High	5.120%	5.328%	97.412
Average	5.120%	5.328%	97.412

Tenders at the high discount rate were allotted 97%.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 24,621,230	$ 3,526,330
Noncompetitive	1,084,692	1,084,692
PUBLIC SUBTOTAL	25,705,922	4,611,022
Foreign Official Refunded	2,649,941	2,649,941
SUBTOTAL	28,355,863	7,260,963
Federal Reserve	3,565,000	3,565,000
Foreign Official Add-On	1,042,559	1,042,559
TOTAL	$ 32,963,422	$ 11,868,522

Bid-to-Cover Ratio = 25,705,922 / 4,611,022 = 5.57

1/ Equivalent coupon-issue yield.

RR-2549

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

EMBARGOED UNTIL 1:30 p.m. EST
June 23, 1998

Contact: Dan Israel
(202) 622-2960

TREASURY NAMES FIRST EVER IRS CITIZEN PANEL

Treasury Secretary Robert E. Rubin and IRS Commissioner Charles O. Rossotti today announced the members of the nation's first IRS citizen advocacy panel, to be based in the IRS South Florida district. The panel stems from recommendations of Vice President Al Gore's National Partnership for Reinvention task force which looked for ways to improve customer service at the IRS. The panel, which represents a cross-section of south Florida taxpayers, will provide area citizens with an independent monitoring of the quality of IRS customer service and make recommendations to improve that service.

"In May 1997, the National Partnership for Reinvention Task Force began examining the IRS customer service operation," Vice President Gore said today. "Thanks to the efforts of the NPR panel and thousands of dedicated IRS employees, tens of thousands of American taxpayers have already received better service including extended phone and walk-in hours and special Problem Solving Days. We have more work to do, but today we take another step in the right direction."

Secretary Rubin said, "The naming of the first citizen panel is an important step in our efforts to reform the IRS. We look forward to input from all of our citizen panels to help us build the IRS that the American people deserve."

The eleven private citizens on the Florida panel are: Christopher Bermejo and Ana Cruz of Hialeah; Clarke Dahlgren of Ft. Myers; Yanick Douyon, Alvin Malley and James Wright of Miami; Edward Gargiulo of Bradenton; Thomas Luken and William Norkunas of Ft. Lauderdale; Mary Sciortino of Cape Coral; and Barbara Willard of Alva. The South Florida district's taxpayer advocate, Maryellen Ledger, will also serve as a member of the panel.

The South Florida citizen panel's first public meeting will be in September. Area citizens interested in contacting the panel can reach it through a special toll-free number: 1-888-912-1CAP (1-888-912-1227).

RR-2550

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

"The IRS will benefit greatly from the fresh perspective of our service as seen through our customers' eyes," Commissioner Rossotti said. "The citizen panel will help us continue to make customer service a top priority at the IRS."

President Clinton announced last October the concept of the new, locally-based citizen panels whose mission is to provide citizen input into enhancing IRS customer service by identifying problems and making recommendations for improvement of IRS systems and procedures, and monitoring the progress toward improvement. The panel will also refer individual taxpayers to the appropriate IRS office for assistance in resolving their problems.

Four citizen panels nationwide are being established this year. In addition to the panel in Ft. Lauderdale, panels will be set up in Brooklyn, Milwaukee, and Seattle later in 1998.

The panel members were identified through an independent, structured application process, aimed at a balanced membership and representation of a cross-section of the taxpaying public within the South Florida district. Panel members will serve two-year terms; they will not be paid, but will be reimbursed for their travel expenses.

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South Florida IRS Citizen Advocacy Panel Members

CHRISTOPHER BERMEJO **Hialeah**

As a telemarketing manager for the American Red Cross, Mr. Bermejo is responsible for achieving the needed blood donations for South Florida hospitals. He has been able to increase blood donations from previous years by developing effective community events and by training and motivating his staff of 30 telemarketers. These activities have provided Mr. Bermejo, 35, with many opportunities to interact with the communities of South Florida to promote public awareness. He also served on Red Cross committees for nationwide total quality management and for Hispanic donors.

ANA CRUZ **Hialeah**

Ms. Cruz is an associate professor of accounting for Miami-Dade Community College. She previously served as manager and controller of an accounting department for a large company, and for five years was a tax examiner for the IRS. She has coordinated three Volunteer Income Tax Assistance (VITA) centers for Miami-Dade college over the past five years. She trains her students to listen, interview and prepare tax returns for taxpayers. Ms. Cruz, 43, serves on multiple committees at Miami-Dade Community College, is a member of the Florida Institute of Certified Public Accountants and the Miami-Lakes Business Association. She speaks both English and Spanish.

CLARKE DAHLGREN **Ft. Myers**

Mr. Dahlgren has retired from his career as a former Regional Director for AT&T. While at AT&T, he led an international initiative to establish new offices in Switzerland, Sweden, the Netherlands, Spain, Greece and Israel. He also participated as a member of a delegation for the U.S. State Department that focused on international tariffs and regulations. More recently, Mr. Dahlgren, 67, studied accounting and took tax courses through H&R Block and Jackson & Hewitt. He currently serves as a tax consultant for H&R Block. He also serves on the board of directors of the Forest Country Club.

YANICK DOUYON **Miami**

Ms. Douyon is a teacher with the Dade County Public Schools and teaches G.E.D. classes in a maximum security prison. She is well versed in taxpayer issues of South Floridians due to her participation in the IRS VITA program since 1994. She teaches in predominantly Hispanic and Haitian communities in Miami-Dade County, speaking Haitian Creole. Ms. Douyon, 48, has also been a facilitator of seminars for Peace Corps volunteers in Haiti.

EDWARD GARGIULO **Bradenton**

Mr. Gargiulo is the president of a Gargiulo Financial Services, Inc.. He has served his community on several community boards and panels, including the Manatee County Board of Commissioners Panel to survey youth recreational needs, the Manatee County Council on Aging, and the Manatee County Rural Health Clinic, for which he served as director. Mr. Gargiulo, 56, was also a customer service manager with Xerox Corporation. He has worked at the Department of Labor and spent five and a half years in the U.S. Navy.

(more)

THOMAS LUKEN **Ft. Lauderdale**

Mr. Luken has been a practicing attorney for over 20 years. Having represented taxpayers through the appellate levels of the IRS, he brings a unique knowledge of taxpayer issues and IRS procedures to the panel. He has extensive knowledge of the tax code and taxpayer issues through his involvement on the American Bar Association section of taxation subcommittee, Broward Lawyers Care (a pro bono organization providing free legal help to the indigent). Mr. Luken, 53, has also been trained as a CPA.

ALVIN MALLEY **Miami**

Mr. Malley is the retired founder and director of Advocates for Seniors, an innovative program for dealing with the criminal justice problems of elderly offenders. He chose gerontology and counseling as a second career, after serving as a managing partner of a large general merchandise and discount store in upstate New York. His work as chairman of the District Long-Term Care Ombudsman Council for the State of Florida involves investigating, mediating, and enforcing federal and state regulations that cover long-term care facilities. Mr. Malley, 74, has extensive volunteer experience on community, local, and state boards.

WILLIAM NORKUNAS **Ft. Lauderdale**

Mr. Norkunas is the director of a non-profit agency, Disabled Assisting the Disabled. He was the governor's appointee to the State of Florida Human Rights Advocacy Board, an appointee to his local redistricting board, and a member of the coordinating council of Broward County. He also serves on a variety of community boards and has participated for three years in the IRS VITA program. Mr. Norkunas, 53, also worked with the staff of the U.S. Senate in the development of the Americans with Disabilities Act (ADA), and currently mediates ADA cases. He carried the Olympic torch through Ft. Lauderdale in 1996.

MARY SCIORTINO **Cape Coral**

Ms. Sciortino is a retired teacher who spent 26 years with the Suffolk County, New York public school system. During that time, she served as head of the 530-member teachers union. Currently, she is a mediator of civil suits for the Lee County justice system. Ms. Sciortino, 71, has been an active volunteer in community activities -- including the Ft. Myers "Call for Action" program, which helps citizens resolve various problems -- since moving to South Florida over 10 years ago.

BARBARA WILLARD **Alva**

Ms. Willard is a self-employed CPA whose practice is located in a small rural community in South Florida. She brings a strong understanding of individual South Florida taxpayer issues to the panel through her work with a broad client base that includes retired professionals, migrant laborers, farmers, and small businesses. Ms. Willard, 44, previously worked as a marketing professional with a resort firm and has spent time as an advisor to a condominium association and a large resort council's regulatory board. Her experience teaching courses for the VITA program and a CPA review program provides up-to-date information on tax issues.

JAMES WRIGHT **Miami**

As a sergeant with the Miami-Dade police department, Mr. Wright interacts with the South Florida community on a daily basis. Within the department, he helps to establish policies and make recommendations regarding the efficiency and effectiveness of his unit. Beyond his regular employment responsibilities, he serves as an executive on numerous community boards, including the Progressive Officers Club and the North Dade Health Center Advisory Board. Mr. Wright, 33, also serves as an arbitrator for the National Association of Securities Dealers.

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

June 23, 1998

The Honorable Robert Livingston
Chairman
Committee on Appropriations
U.S. House of Representatives
Washington, D.C. 20515

Dear Bob:

I am extremely concerned that an amendment to restrict severely the use of the Exchange Stabilization Fund (ESF) may be considered during House action on the Treasury, Postal Appropriations bill. Such an amendment would constitute an unacceptable limitation on the executive branch's ability to protect critical U.S. economic interests, and I would be forced to recommend a Presidential veto if the final bill contained such restrictions.

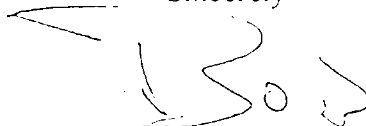
The original ESF statute deliberately provided the executive branch with the flexibility needed to respond expeditiously and effectively when justified by important national economic interests. Because the nature of financial crises sometimes requires urgent action to stabilize markets and protect the U.S. economy, it is necessary to act more quickly than is permitted by the deliberative procedures of the legislative branch. This is particularly true in today's large, fast-moving financial markets.

To take just one recent example, the ESF permitted the United States - with broad international cooperation - to participate in a critical, highly time-sensitive Christmas Eve effort to forestall financial default in Korea, where 37,000 American troops are stationed. The economic and national security consequences of Korean default were clearly unacceptable risks for the U.S., and the availability and flexibility of ESF resources were indispensable to our stabilization efforts.

Let me make clear that we fully accept our responsibility to account to Congress for our actions under the ESF statute. Treasury submits detailed monthly reports on ESF transactions to the Banking Committees, and the President submits an annual report to the Congress. We believe strongly that our past use of the ESF, as well as any potential use as intended in the Asian crisis, is prudent and consistent with the spirit and letter of the law.

We simply cannot afford to compromise our nation's vital economic and financial interests by limiting our ability to act responsibly and expeditiously during times of urgent crisis, and I urge the Congress to preserve the ESF statute in its current form.

Sincerely



Robert E. Rubin

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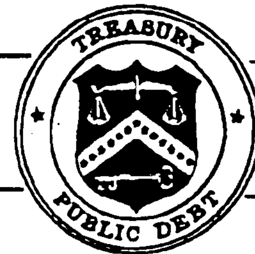
PUBLIC DEBT NEWS

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



TREASURY SECURITY AUCTION RESULTS
BUREAU OF THE PUBLIC DEBT - WASHINGTON DC

FOR IMMEDIATE RELEASE
June 23, 1998

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 2-YEAR NOTES

Interest Rate:	5 3/8%	Issue Date:	June 30, 1998
Series:	AE-2000	Dated Date:	June 30, 1998
CUSIP No:	9128274J8	Maturity Date:	June 30, 2000
STRIPS Minimum:	$1,600,000		

High Yield: 5.495% Price: 99.776

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 40%.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 36,803,860	$ 10,713,800
Noncompetitive	1,307,350	1,307,350
PUBLIC SUBTOTAL	38,111,210	12,021,150
Federal Reserve	1,383,000	1,383,000
Foreign Official Inst.	1,500,000	1,500,000
TOTAL	$ 40,994,210	$ 14,904,150

Median yield 5.490%: 50% of the amount of accepted competitive tenders was tendered at or below that rate.

Low yield 5.400%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 38,111,210 / 12,021,150 = 3.17

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED UNTIL 2:30 P.M.
June 23, 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 July 2, 1998. This offering will result in a paydown for the Treasury of about $800 million, as the maturing publicly held weekly bills are outstanding in the amount of $13,797 million.

In addition to the public holdings, Federal Reserve Banks for their own accounts hold $6,862 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 $2,484 million as agents for foreign and international monetary authorities, which may be refunded within the offering amount at the weighted average discount rate of accepted competitive tenders. Additional amounts may be issued for such accounts if the aggregate amount of new bids exceeds the aggregate amount of maturing bills.

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

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

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Attachment

RR-2553

HIGHLIGHTS OF TREASURY OFFERINGS OF WEEKLY BILLS TO BE ISSUED JULY 2, 1998

June 23, 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 AL 5	912795 AW 1
Auction date	June 29, 1998	June 29, 1998
Issue date	July 2, 1998	July 2, 1998
Maturity date	October 1, 1998	December 31, 1998
Original issue date	April 2, 1998	July 2, 1998
Currently outstanding	$10,905 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

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
June 23, 1998

Contact: Peter Hollenbach
(202) 219-3302

BUREAU OF THE PUBLIC DEBT AIDS SAVINGS BONDS OWNERS AFFECTED BY WILDFIRES IN FLORIDA

The Bureau of Public Debt took action to assist victims of wildfires in Florida 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 Florida affected by the fires. These procedures will remain in effect through August 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.

Florida counties involved are Brevard, Columbia, Duval, Flagler, Putnam, Seminole, St Johns and Wakulla. 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 num ers if available. The completed form must be certified by a notary public or an officer of financial institution. Completed forms should be forwarded to Public Debt's Savings Bond (perations Office located at 200 Third St., Parkersburg, West Virginia 26106-1328. Bond wners should write the word "FIRES" on the front of their envelopes, to help expedite the ırocessing of claims.

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PA-355

RR-2554

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

EMBARGOED UNTIL 10AM EDT
Text as Prepared for Delivery
June 24, 1998

TREASURY ASSISTANT SECRETARY GARY GENSLER
HOUSE COMMITTEE ON WAYS AND MEANS

Mr. Chairman, and distinguished members of the committee, it is an honor to be here today to discuss Treasury debt management. With the Clinton Administration's policy of fiscal discipline, and its fostering of a strong U.S. economy, we are experiencing our first budget surplus since 1969. The Administration welcomes the challenge of managing a surplus rather than financing a deficit.

Our discussion of debt management will begin with the goals and principles that guide Treasury in this important endeavor. After outlining our changing financing needs, I will review the adjustments to Treasury debt management announced this May. I will then discuss the inflation-indexed program and a number of other innovations in debt management that have been implemented during the Clinton Administration. Finally, I will say a few words about the measures that we are taking to prepare our critical securities-related systems for the Year 2000.

1. Goals and Principles

Treasury debt management has three main goals (Exhibit A):

- The first is sound cash management -- ensuring that Treasury cash balances are sufficient at all times.
- The second is achieving the lowest cost financing for the taxpayers.
- And the third is the promotion of efficient capital markets.

In achieving these goals, five interrelated principles guide us (Exhibit B).

RR-2555

The first principle is maintaining the "risk-free" status of Treasury securities. This is accomplished through prudent fiscal discipline and timely increases in the debt limit. Ready market access at the lowest cost to the Government is an essential component of debt management.

Second, is maintaining consistency and predictability in our financing program. Treasury issues securities on a regular schedule with set auction procedures. This reduces uncertainty in the market and helps minimize our overall cost of borrowing. In keeping with this principle, Treasury does not seek to time markets; that is, we do not act opportunistically to issue debt when market conditions appear favorable.

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 used by investors 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.

Fifth, Treasury employs unitary financing. We aggregate all of the Government's financing needs and borrow as one nation. Thus, all programs of the Federal Government can benefit from Treasury's low borrowing rate. Otherwise, separate programs with smaller, less liquid issues, would compete with one another in the market. Paul Volcker, then Under Secretary of the Treasury, proposed to promote the concept of unitary financing by establishing the Federal Financing Bank. He brought that idea before this Committee 27 years ago. The Administration continues to vigorously endorse this principle.

2. Changing Financing Needs

As we experience the first budget surplus in almost 30 years, we are responding to dramatic changes in our financing needs. Exhibit C shows the components of outstanding Federal debt. Privately held debt totals just under $3.4 trillion. Baseline estimates made just prior to the Clinton Administration projected that today's level of privately held debt would be greater by roughly $1.1 trillion, or approximately 32 percent. This remarkable accomplishment has benefitted all Americans through a higher national savings rate and lower interest rates.

Exhibit D shows how the components of our financing needs have changed over the last several years. Unified budget deficits, which historically drove our net borrowing needs, decreased dramatically and finally became a surplus. Net Federal lending activities that are not included in the unified budget have added to our financing needs. (This is largely represented by the direct student loan program.)

Another significant change is that we have been filling an increasing share of our financing

needs by issuing nonmarketable securities. Upon the redesign two years ago of the nonmarketable securities issued to state and local governments ("SLGS"), we have seen a sharp increase in this type of financing. This year, we anticipate more than $50 billion in net SLGS issuance.

All of these factors lead to an anticipated $79 billion pay down in marketable debt this fiscal year. This compares to $169 billion in net market borrowing just three years ago. Treasury will still be the largest issuer in the market, however, as we need to raise the monies to pay off our maturing securities. This year, $510 billion of our longer term debt, known as "coupon" securities, will mature. In addition, there are $450 billion in Treasury bills outstanding which need to be refinanced on average several times a year. Treasury bills are our shortest term offerings, with maturities of less than one year.

3. May Announcements

To achieve the goals and to promote the principles that I described above, Treasury has a variety of financing tools at its disposal. These include issue sizes, offering schedules, instruments offered, auction rules and possible debt repurchases.

In May of this year, we used several of these financing tools to address the exciting challenge brought on by the new environment of budget surpluses. First, we discontinued issuance of 3-year notes. Second, we reduced the frequency of new issues of 5-year notes, shifting to a schedule of quarterly issuances instead of monthly issuances. I will discuss in some detail the actions that we took, as they best demonstrate how Treasury's debt management goals and principles guide our policy decision making.

In light of our lower borrowing requirements, we needed to develop a strategy for decreasing our issuances of Treasury securities. The first question we faced was whether to further decrease the issuance of Treasury bills. Over the last two years, we had been reducing the amounts of Treasury bills offered. Consequently, the market in privately held Treasury bills had declined in overall size by $135 billion, or 23 percent. Due to this change, the bill market had become less liquid. In addition, our previous reductions in bill issuances had caused the average life of our marketable debt to increase modestly. If left unaddressed, this would raise our borrowing costs because over long periods of time, interest rates on shorter term borrowings tend to be lower than on longer term borrowings. Moreover, Treasury bills, which are issued weekly, allow us flexibility to best manage Treasury's fluctuating cash needs. For all of these reasons, we decided to reduce our issuance of coupon debt, rather than further reduce issuance of Treasury bills.

The second question we faced was whether to make cuts across all of the existing types of coupon debt, or to eliminate specific issues or maturities. The current issue sizes had already been reduced to levels in existence in 1992. The size of the U.S. capital markets have expanded

significantly since that time. Accordingly, we decided to concentrate our borrowing in fewer but larger debt offerings. By reducing the total number of yearly coupon issues from 39 to 27, we will promote market liquidity and efficiency, and best achieve lowest cost financing for taxpayers.

The next question we faced was which issues or maturities to eliminate. The discontinuation of a maturity is not unusual - we discontinued 20-year bonds in 1986, 4-year notes in 1991, and 7-year notes in 1993. The 3-year note was chosen for elimination in response to market demands. It is closest in maturity to another of Treasury's coupon offerings, the 2-year note. In addition, the elimination of the 3-year note allows us to maintain financing across the yield curve. We chose to reduce the frequency of new issues of 5-year notes, shifting to a schedule of quarterly issuances to further concentrate our issuance. That change fits our cash management needs by providing us with the cash we need in the middle of fiscal quarters.

In sum, the debt management changes that we announced in May promoted the achievement of Treasury's debt management goals. We reduced the Treasury offering schedule to align new Treasury security issuance with the Government's need for financing. By concentrating our financing on larger, more liquid issues, we are promoting capital markets as well as lowest cost financing for the taxpayers.

4. Recent Innovations

The changes that we instituted in May are just one example of the innovations in debt management that have been achieved during the Clinton Administration.

One of our most significant innovations has been the development of inflation-indexed securities. These securities, first offered in January 1997, diversify the Government's financing sources. We believe that this will lower Treasury's borrowing costs over the long term. They also provide an important diversification tool for investors. Moreover, by providing inflation protection, we believe that inflation-indexed securities promote savings. In addition, U.S. capital markets now have securities that price inflation risk. Treasury has made a long-term commitment to develop the inflation indexed market further.

In 1996, Treasury made it easier and less costly for state and local governments to refinance and invest in Treasuries. We redesigned SLGS and made them more flexible. As noted, we are now experiencing record net new borrowing in the form of SLGS.

In 1997, Treasury took steps to make savings bonds more attractive for American savers. We began to calculate the savings bond interest rate using a different formula, which raised the rate. We also began to accrue the interest on a monthly basis, instead of every six months. Later this year, we will be introducing inflation-indexed savings bonds. These bonds will protect hard-earned savings from inflation. They will be issued in denominations as low as $50, making them affordable for all Americans.

We are also introducing some new services designed to make our securities more accessible to investors. For example, later this year, we expect to offer savings bonds over the Internet. In addition, we've made improvements to the Treasury DIRECT book-entry system. The changes to Treasury DIRECT make it easier for investors to sell and to pay for Treasury securities, and to reinvest proceeds.

5. Year 2000 Problem

Before I conclude, I would like to take a moment to discuss the steps we are taking to address the Year 2000 computer problem as it relates to the functioning of the market for Treasury securities.

On Friday, December 31, 1999, the Treasury Department is scheduled to make principal and interest payments of $35 billion. We are also scheduled to issue securities on that day. On Monday, January 3, in the year 2000, we currently plan to conduct our usual weekly Treasury bill auctions. Treasury is committed to taking all the necessary steps to avoid any significant disruption on that first trading day of the new millennium.

Our efforts in this area are both internal and external. Internally, the Treasury and the Federal Reserve have identified 14 critical securities-related systems, and are in the process of ensuring that all of those systems are Year 2000 compliant. The critical systems include the national book entry system, which maintains and transfers marketable Treasury securities; and our auction and trading systems, which receive and process auction tender information. We expect to complete coding and testing for all but one of the systems by the end of 1998.

Externally, Treasury has been reaching out to Treasury market participants to encourage them to engage in Year 2000 readiness testing. Just last week, we co-sponsored a conference on readiness testing in New York. In addition, we have been engaging with other members of the Working Group on Financial Markets, both at the principal level and at the staff level, to address this important issue.

6. Conclusion

As I stated earlier, the Administration welcomes the challenge of managing a surplus rather than financing a deficit. I will be happy to answer any questions you may have regarding Treasury debt management in this new era of budget surpluses.

-30-

Exhibit A

GOALS OF DEBT MANAGEMENT

- Sound cash management
- Lowest cost financing for taxpayers
- Promoting efficient capital markets

Exhibit B

GUIDING PRINCIPLES

- Maintaining “risk free” status
- Maintaining consistency and predictability
- Ensuring market liquidity
- Financing across the yield curve
- Employing unitary financing

Exhibit C

Public Debt

As of May 31, 1998
(Billions)

I. Privately held	
Marketable:	
Bills	$ 449
Coupons	2,430
Inflation-indexed securities	48
Subtotal	2,926
Nonmarketable:	
State and Local Government Series	151
U.S. Savings Bonds	181
Other	100
Subtotal	432
II. Held by the Federal Reserve Banks	444
III. Held by U.S. Government Accounts	1,704
TOTAL	$ 5,506

Note: Detail may not add, due to rounding.

Exhibit D

Financing Need

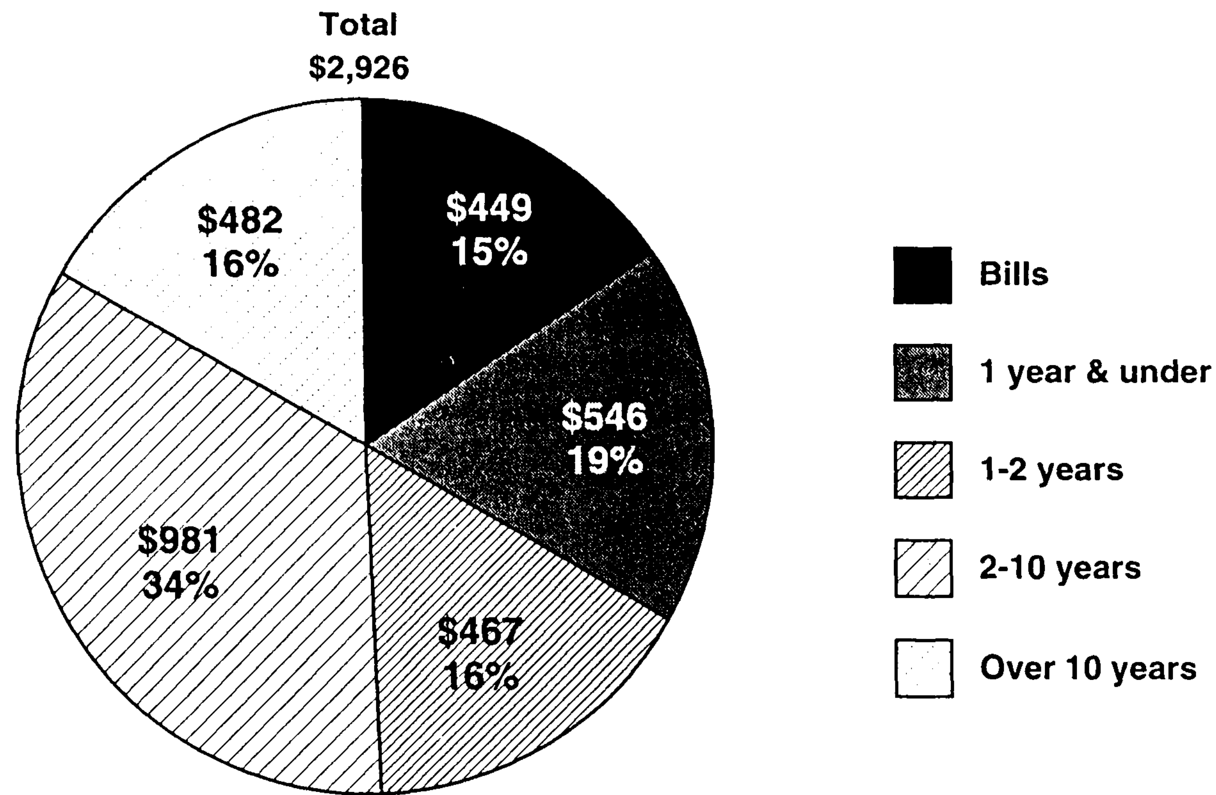
(Billions)

	FY 1995	FY 1996	FY 1997	FY 1998 (estimate)
Unified Budget	$ -164	$ -107	$ -22	$ 39
Financing Accounts	-4	-12	-21	-16
	$ -168	$ -119	$ -42	$ 23
Nonmarketable Securities	-19	-15	16	52
Adjustments to Cash Basis and Other	18	-24	6	3
Net Market Borrowing	169	158	21	-79
	$ 168	$ 119	$ 42	$ -23
Maturing Coupon Securities	$ 351	$ 440	$ 481	$ 510

Note: Detail may not add, due to rounding.

PRIVATE HOLDINGS OF TREASURY MARKETABLE DEBT BY REMAINING MATURITY

Billions of dollars



As of May 31, 1998

THE DEPUTY SECRETARY OF THE TREASURY
WASHINGTON

June 23, 1998

The Honorable Richard A. Gephardt
Minority Leader
United States House of Representatives
Washington, DC 20515

Dear Congressman Gephardt:

As the House prepares to consider H. R. 4105, the Internet Tax Freedom Act, I welcome the opportunity to share the Administration's views on this important legislation.

The Administration strongly supports a temporary and appropriate moratorium on taxation of the Internet and electronic commerce. The dramatic growth of the Internet and electronic commerce is creating jobs and economic growth, expanding customer choice, and making U.S. firms more competitive in global markets. We would not want duplicative, discriminatory or inappropriate taxation by 30,000 different state and local tax jurisdictions to stunt the development of what President Clinton has called "the most promising new economic opportunity in decades." Thus, any taxation of the Internet and electronic commerce must be clear, consistent, neutral, and non-discriminatory.

At the same time, we must not allow the Internet to become a tax haven that drains the sales tax and other revenues that our states and cities need to educate our children and keep our streets safe. In conjunction with this moratorium, we need to establish a commission that will explore the longer-term tax issues raised by electronic commerce, and develop a policy framework that is fair to states and localities while allowing the Internet to earn its fair place in the ever-changing business world.

The Administration strongly urges the House to act now to pass this legislation as we work to accomplish these two goals. The Administration will have suggestions for improving the bill, but we believe that any outstanding issues can be resolved in a House-Senate conference.

The Office of Management and Budget has advised that there is no objection from the standpoint of the Administration's program to the presentation of this report.

Sincerely,

Lawrence H. Summers

RR-2556

THE DEPUTY SECRETARY OF THE TREASURY
WASHINGTON

June 23, 1998

The Honorable Newt Gingrich
Speaker of the House
United States House of Representatives
Washington, DC 20515

Dear Mr. Speaker:

As the House prepares to consider H. R. 4105, the Internet Tax Freedom Act, I welcome the opportunity to share the Administration's views on this important legislation.

The Administration strongly supports a temporary and appropriate moratorium on taxation of the Internet and electronic commerce. The dramatic growth of the Internet and electronic commerce is creating jobs and economic growth, expanding customer choice, and making U.S. firms more competitive in global markets. We would not want duplicative, discriminatory or inappropriate taxation by 30,000 different state and local tax jurisdictions to stunt the development of what President Clinton has called "the most promising new economic opportunity in decades." Thus, any taxation of the Internet and electronic commerce must be clear, consistent, neutral, and non-discriminatory.

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The Administration strongly urges the House to act now to pass this legislation as we work to accomplish these two goals. The Administration will have suggestions for improving the bill, but we believe that any outstanding issues can be resolved in a House-Senate conference.

The Office of Management and Budget has advised that there is no objection from the standpoint of the Administration's program to the presentation of this report.

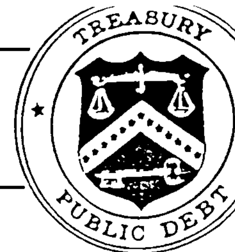
Sincerely,

Lawrence H. Summers

RR-2557

PUBLIC DEBT NEWS

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



TREASURY SECURITY AUCTION RESULTS
BUREAU OF THE PUBLIC DEBT - WASHINGTON DC

FOR IMMEDIATE RELEASE
June 24, 1998

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 5-YEAR NOTES

Interest Rate:	5 3/8%	Issue Date:	June 30, 1998
Series:	H-2003	Dated Date:	June 30, 1998
CUSIP No:	9128274K5	Maturity Date:	June 30, 2003
STRIPS Minimum:	$1,600,000		

High Yield: 5.454% Price: 99.658

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 91%.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 26,030,300	$ 10,729,500
Noncompetitive	271,657	271,657
PUBLIC SUBTOTAL	26,301,957	11,001,157
Federal Reserve	1,265,000	1,265,000
Foreign Official Inst.	850,000	850,000
TOTAL	$ 28,416,957	$ 13,116,157

Median yield 5.438%: 50% of the amount of accepted competitive tenders was tendered at or below that rate.

Low yield 5.400%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 26,301,957 / 11,001,157 = 2.39

RR-2559

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
June 25, 1998

Contact: Michelle Smith
(202) 622-2960

FINAL RULE FOR ELECTRONIC GOVERNMENT PAYMENTS WILL BALANCE RECIPIENT NEEDS WITH BENEFITS OF ELECTRONIC PAYMENT

The Treasury Department announced today key provisions of a new regulation to carry out a 1996 law requiring most federal payments to be made electronically. The Treasury regulation will allow payment recipients to continue receiving paper checks if electronic deposit would cause them a hardship.

"We want to strike the right balance between realizing the tremendous taxpayer cost savings from direct deposit while still protecting the payment recipients from possible disruption or hardship," Treasury Under Secretary John D. Hawke, Jr. said. "The final rule will emphasize recipient choice and the importance of ensuring that recipients are not forced into choices that are not right for them."

Treasury expects to issue its final regulation this summer. Today's announcement is being made in order to give Federal payment recipients as much information as possible about their choices under this new law and also to provide federal benefit agencies with a head start in implementing this regulation.

The new regulation will implement provisions in the Debt Collection Improvement Act of 1996 requiring that all federal payments other than tax refunds be made by electronic funds transfer (EFT) beginning January 2, 1999. The law gives the Secretary of the Treasury broad authority to provide waivers from this requirement. The payments covered by EFT include Social Security, veterans benefits, Railroad Retirement benefits, federal salaries and federal retiree benefits and vendor payments.

Direct deposit of payments through EFT has become increasingly popular because it is safer, more secure and, for most recipients, more convenient than paper checks. The EFT initiative will therefore significantly improve the way many Americans receive their government payments. In addition, EFT will enable the government to achieve significant cost savings and will therefore save money for taxpayers.
RR-2560

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

In September 1997, Treasury and its Financial Management Service bureau issued a proposed EFT regulation and invited public comment. Treasury received more than 200 comment letters from individuals and organizations, including federal payment recipients, consumer organizations, government agencies, financial institutions, and non-bank financial service providers. Treasury also held public hearings in Dallas, New York City, Baltimore and Los Angeles.

Many of those providing comments urged Treasury to broaden and liberalize its original proposal for waivers available to allow individuals to continue to receive paper checks. Treasury has given serious consideration to all of the comments received in formulating this final rule.

EFT Final Regulation

Waivers

Any payment recipient who does not have an account at a financial institution will receive an automatic waiver from the EFT requirement until the Treasury Department provides notice that an account meeting its specifications is available to the recipient (see "Access to Accounts Specified by Treasury" below). Once that account is available, those payment recipients will be able to decide whether they wish to sign up for one of those accounts or continue receiving a paper check.

In addition, payment recipients may choose to continue receiving paper checks for other reasons:

- Any individual will be eligible for a financial hardship waiver if receiving direct deposit will cost him or her more than receiving a check.
- Any payment recipient with a physical or mental disability, or a geographic, language, or literacy barrier, will be eligible for a waiver from the EFT requirements.

The Treasury Department emphasizes that no payment will be withheld or delayed for any reason related to the implementation of EFT.

Waiver Information and Disclosure

Treasury is working with other federal paying agencies (such as the Social Security Administration) to ensure that payment recipients know what choices they have under this regulation and can choose whatever payment option is best for their particular circumstances. Under this final regulation, broad categories of waivers, as described above, allow recipients to continue receiving paper checks. The waivers are self certifying, which means that payment recipients make their own decisions as to whether or not to sign up for direct deposit; if they choose not to sign up for direct deposit, they will continue to receive paper checks. Federal agencies will have discretion whether to require recipients to submit written waiver certifications.

Treasury has been informed that the Social Security Administration will not require written waiver certifications. Therefore, any Social Security recipient who does not sign up for

direct deposit will continue to receive his or her benefits by paper check. Federal agencies will be required to notify all current check recipients of all EFT options, including enrolling in direct deposit, awaiting the availability of the Treasury specified account, and electing waivers that allow recipients to continue receiving checks.

Access to Accounts Specified by Treasury

As part of the EFT initiative, Treasury is working to develop a low-cost account that will be offered through federally-insured financial institutions for electronic receipt of federal payments. This account will be known as the Electronic Transfer Account (ETA^{SM}). Individuals who receive a government payment would be able to select an ETA^{SM} at any participating institution. The ETA^{SM} will be available to all payment recipients, regardless of whether the recipient has an existing account at a financial institution. The specific characteristics of the ETA^{SM} will be proposed in a Federal Register notice to be released in the near future.

In addition, Treasury has been working with a number of States to link the delivery of federal payments to State Electronic Benefit Transfer programs. This would allow federal payment recipients to receive those federal payments on the same card on which they receive the state benefits, such as Food Stamps.

Next Steps

Treasury expects to publish the final EFT rule within 6 to 8 weeks. In addition, Treasury will publish a Federal Register notice describing the proposed characteristics of the ETA^{SM} in the near future. The public will have at least 30 days from the publication date of the ETA notice to provide Treasury with comments.

Treasury considers public education to be a crucial component for successful implementation of EFT. Based on comprehensive market research to learn more about the characteristics of federal payment recipients, Treasury is crafting an extensive nationwide public education campaign. This outreach will include grassroots education through consumer, community, and other organizations, as well as through the publication of information materials, media outreach, and public service advertising.

Further Considerations

In anticipation of the effective date for the EFT initiative, some federally insured depository institutions have entered into, or have announced plans to enter into, arrangements with non-depository providers of payment services, such as check cashers and money transmitters. Such arrangements may involve giving recipients access to EFT deposits in their insured accounts through the uninsured third-party provider. Treasury is considering whether to propose a regulation covering these arrangements. Any such proposed action would be published for public comment.

-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
Jule 25, 1998

Contact: Michelle Smith
(202) 622-2960

Statement by Treasury Under Secretary for Domestic Finance John D. Hawke, Jr.

The Treasury Department is concerned about recent reports indicating that some banks are offering or are planning to offer direct deposit services that involve prearranged linkages with retail outlets, including liquor stores. Customers who sign up for such services, including recipients of government payments, would access their accounts through the nonbank outlet and may be exposed to substantial fees in order to receive their payments.

We are concerned that government payment recipients may be misled into signing up for such payment access services prematurely and on the basis of misinformation or misapprehension about their rights. The Department recently requested that all federal bank regulators take steps to ensure that banks involved in any such arrangements make full and fair disclosure of the costs and fees involved in such arrangements. In addition, the Department recently obtained the agreement of a nonbank service provider that was distributing erroneous information to distribute a corrective notice to all affected customers and to inform customers that any fees paid may be recovered. The Department is also considering whether to issue a proposed regulation with respect to such arrangements.

Congress has directed that starting in January 1999 most recipients of federal payments should receive their payments by electronic direct deposit. New Treasury regulations that will be released in the very near future, many terms of which are being announced today, however, will make clear that waivers from this requirement will be liberally available at the recipient's choice, and that no checks will be held up or delayed.

In addition, Treasury will be making arrangements for banks to offer a low-cost Electronic Transfer Account (ETA) that will be available to all recipients of federal payments. It is expected that the ETA will become available in the latter part of 1999. Recipients who currently receive checks need not take any action to convert to direct deposit before the ETA becomes available. They may, of course, sign up for direct deposit at any financial institution, but no recipient need take any action at this time.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

MEDIA ADVISORY
June 25, 1998

Contact: Office of Public Affairs
(202) 622-2960

U.S. TREASURY SECRETARY RUBIN TO SPEAK AT SASIN GRADUATE INSTITUTE OF BUSINESS ADMINISTRATION AT CHULALONGKORN UNIVERSITY, TUESDAY, JUNE 30

U.S. Treasury Secretary Robert E. Rubin will address students at the Sasin Graduate Institute of Business Administration at Chulalongkorn University in Bangkok, Thailand on Tuesday, June 30, at 11:00 a.m. Secretary Rubin will speak on current global economic issues and take questions from the students.

Secretary Rubin's speech will be in the Grand Hall on the ninth floor of the Sasin Institute. The speech is open to the press and will be followed by a press conference also at the Institute in Room 704. Media interested in attending the speech and the press conference should contact the USIS Media Office in Bangkok at 662-205-4232 or 205-4241or by fax at 650-8919.

Space will be available for TV camera crews and photographers. Space for other members of the media in the hall itself is limited and seats will be held on a first-come first-serve basis. Other members of the media will be able to watch and listen to the speech on closed circuit TV at the Sasin Institute.

-30-

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
June 25, 1998

Contact: Michelle Smith
(202) 622-2960

STATEMENT BY DEPUTY TREASURY SECRETARY LAWRENCE H. SUMMERS ON INDONESIA

We welcome the announcement in Jakarta today that the International Monetary Fund and the Government of Indonesia have reached agreement on a revised economic program designed to stabilize the Indonesian economy. The United States has a strong economic and national security interest in seeing Indonesia succeed in these efforts, which will depend on its ability to sustain both economic and political reforms. We will be consulting with the international financial institutions and other countries around the world to ensure that international support for Indonesia is sufficient for it to meet the difficult challenges it currently faces. We look forward to the timely board approval and disbursement of these funds, as well as those from the World Bank.

We also welcome the Asian Development Bank's announcement that it has approved a substantial loan to improve financial sector governance in Indonesia. This loan will support efforts to strengthen Indonesia's banking system and is critical to restoring financial stability and growth.

-30-

RR-2563

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
June 25, 1998

Contact: Michelle Smith
(202) 622-2960

**STATEMENT OF ROBERT E. RUBIN
ON THE DEPARTURE OF MICHAEL P. DOLAN**

IRS Deputy Commissioner Mike Dolan, the highest ranking career official in the agency, has announced his intention to leave the IRS after 27 years of dedicated public service. Beginning in March 1992, Mike served as Deputy Commissioner of the agency. After 5 years as Deputy Commissioner, Mike stepped in to lead the Service as Acting Commissioner last year for the second time, and he provided strong leadership at the Service during a difficult period.

As Deputy Commissioner, he has played a primary role in refocusing the IRS on providing better service to taxpayers and fundamentally reexamining IRS operations. He worked closely with the National Treasury Employees Union on several, innovative labor-management initiatives. And as someone who rose through the ranks of the Service, he earned the respect both of front-line employees all over the country, and officials at the highest levels of government. In both 1987 and 1994, he received Meritorious Presidential Rank Awards.

In working on IRS issues over the last few years, I have personally developed an enormous amount of respect for Mike Dolan's abilities, leadership, and character. For his longtime commitment to improving the functioning of government, we are grateful to Mike and hopeful that he will continue working with us in the Treasury Department.

--30--

RR-2564

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

June 26, 1998

FEDERAL FINANCING BANK

Charles D. Haworth, Secretary, Federal Financing Bank (FFB), announced the following activity for the month of May 1998.

FFB holdings of obligations issued, sold or guaranteed by other Federal agencies totaled $44.2 billion on May 31, 1998, posting a decrease of $669.9 million from the level on April 30, 1998. This net change was the result of a decrease in holdings of agency debt of $54.5 million, in holdings of agency assets of $605.0 million, and in holdings of agency guaranteed loans of $10.3 million. FFB made 14 disbursements during the month of May and refinanced 26 RUS-guaranteed loans. FFB also received 23 prepayments in May.

Attached to this release are tables presenting FFB May loan activity and FFB holdings as of May 31, 1998.

RR-2565

FEDERAL FINANCING BANK
MAY 1998 ACTIVITY

BORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST RATE
AGENCY DEBT				
U.S. POSTAL SERVICE				
U.S. Postal Service	5/1	$7,140,000.00	5/4/98	5.267% S/A
U.S. Postal Service	5/4	$189,900,000.00	5/5/98	5.353% S/A
U.S. Postal Service	5/4	$100,000,000.00	5/5/98	5.142% S/A
U.S. Postal Service	5/18	$134,100,000.00	5/19/98	5.322% S/A
GOVERNMENT - GUARANTEED LOANS				
GENERAL SERVICES ADMINISTRATION				
Chamblee Office Building	5/15	$3,194,535.20	4/1/99	5.583% S/A
Chamblee Office Building	5/18	$17,216.40	4/1/99	5.569% S/A
Chamblee Office Building	5/19	$116,626.21	4/1/99	5.560% S/A
Foley Square Office Bldg.	5/19	$22,724.00	7/31/25	6.019% S/A
GSA/PADC				
ICTC Building	5/21	$9,922,433.95	11/2/26	6.003% S/A
ICTC Building	5/27	$542,717.00	11/2/26	5.976% S/A
DEPARTMENT OF EDUCATION				
Bethune Cookman	5/27	$326,881.17	9/1/27	5.977% S/A
Bethune Cookman	5/28	$182,973.16	9/1/27	5.952% S/A

S/A is a Semi-annual rate.

FEDERAL FINANCING BANK
MAY 1998 ACTIVITY

BORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST RATE
GOVERNMENT - GUARANTEED LOANS				
RURAL UTILITIES SERVICE				
+Oglethorpe Power #445	5/8	$115,077,123.00	12/31/09	5.629% Qtr.
+Oglethorpe Power #445	5/8	$2,379,172.40	1/3/12	5.663% Qtr.
+Oglethorpe Power #445	5/8	$2,680,755.46	1/3/12	5.663% Qtr.
+Oglethorpe Power #445	5/8	$24,352,606.95	1/3/12	5.663% Qtr.
+Oglethorpe Power #445	5/8	$1,839,958.75	1/3/12	5.663% Qtr.
+Oglethorpe Power #445	5/8	$1,429,449.29	1/3/12	5.663% Qtr.
+Oglethorpe Power #445	5/8	$2,367,037.49	1/3/12	5.663% Qtr.
+Oglethorpe Power #445	5/8	$11,562,123.93	12/31/13	5.708% Qtr.
+Oglethorpe Power #445	5/8	$211,022.62	12/31/19	5.838% Qtr.
+Oglethorpe Power #445	5/8	$3,182,738.57	12/31/18	5.824% Qtr.
+Oglethorpe Power #445	5/8	$13,176,122.45	12/31/18	5.824% Qtr.
+Oglethorpe Power #445	5/8	$18,882,709.30	12/31/19	5.838% Qtr.
+Oglethorpe Power #445	5/8	$19,375,193.82	12/31/19	5.838% Qtr.
+Oglethorpe Power #445	5/8	$13,974,473.01	12/31/19	5.838% Qtr.
+Oglethorpe Power #445	5/15	$17,772,996.68	12/31/15	5.729% Qtr.
+Oglethorpe Power #445	5/15	$10,936,444.84	1/3/17	5.757% Qtr.
+Oglethorpe Power #445	5/15	$13,212,154.70	1/3/17	5.757% Qtr.
+Oglethorpe Power #445	5/15	$4,782,362.11	12/31/14	5.702% Qtr.
+Oglethorpe Power #445	5/15	$18,711,654.70	12/31/15	5.729% Qtr.
+Oglethorpe Power #445	5/15	$543,638.98	1/3/17	5.757% Qtr.
+Oglethorpe Power #445	5/15	$6,719,665.14	1/3/17	5.757% Qtr.
+Oglethorpe Power #445	5/15	$9,655,819.14	12/31/18	5.805% Qtr.
+Oglethorpe Power #445	5/15	$18,846,450.60	12/31/19	5.824% Qtr.
Johnson County Elec. #482	5/19	$1,800,000.00	12/31/18	5.914% Qtr.
Coastal Electric #460	5/22	$508,000.00	12/31/31	6.003% Qtr.
+Oglethorpe Power #445	5/22	$11,034,615.31	12/31/09	5.586% Qtr.
+Oglethorpe Power #445	5/22	$1,533,990.37	1/3/11	5.592% Qtr.
+Oglethorpe Power #445	5/22	$16,672,679.56	12/31/18	5.766% Qtr.

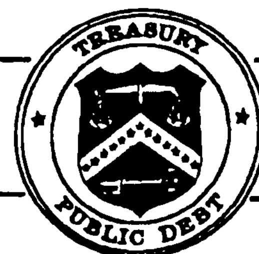
Qtr. is a Quarterly rate.
+ 306C refinancing

FEDERAL FINANCING BANK
(in millions)

Program	May 31, 1998	April 30, 1998	Net Change 5/1/98-5/31/98	FY '98 Net Change 10/1/97-5/31/98
Agency Debt:				
Export-Import Bank	$ 541.9	$ 541.9	$ 0.0	$ -752.7
Resolution Trust Corporation	416.6	471.1	-54.5	-958.4
U.S. Postal Service	1,000.0	1,000.0	0.0	-963.5
sub-total*	1,958.4	2,013.0	-54.5	-2,674.6
Agency Assets:				
FmHA-RDIF	3,675.0	3,675.0	0.0	0.0
FmHA-RHIF	11,350.0	11,955.0	-605.0	-2,180.0
DHHS-Health Maintenance Org.	4.4	4.4	0.0	0.0
DHHS-Medical Facilities	13.0	13.0	0.0	0.0
Rural Utilities Service-CBO	4,598.9	4,598.9	0.0	0.0
sub-total*	19,641.3	20,246.3	-605.0	-2,180.0
Government-Guaranteed Loans:				
DOD-Foreign Military Sales	2,922.7	2,935.4	-12.7	-125.6
DoEd-HBCU	2.4	1.9	0.5	1.7
DHUD-Community Dev. Block Grant	32.9	34.1	-1.1	-3.0
DHUD-Public Housing Notes	1,491.4	1,491.4	0.0	-70.0
General Services Administration +	2,472.3	2,468.4	3.9	52.6
DOI-Virgin Islands	17.8	17.8	0.0	-0.9
DON-Ship Lease Financing	1,224.9	1,224.9	0.0	-83.1
Rural Utilities Service	14,209.4	14,207.1	2.3	-609.4
SBA-State/Local Development Cos.	245.3	248.5	-3.2	-29.6
DOT-Section 511	3.9	3.9	0.0	-0.1
sub-total*	22,623.1	22,633.4	-10.3	-867.3
	=========	=========	=========	=========
grand-total*	$ 44,222.8	$ 44,892.7	$ -669.9	$ -5,722.0

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

PUBLIC DEBT NEWS



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

TREASURY SECURITY AUCTION RESULTS
BUREAU OF THE PUBLIC DEBT - WASHINGTON DC

FOR IMMEDIATE RELEASE
June 29, 1998

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Term: 91-Day Bill
Issue Date: July 02, 1998
Maturity Date: October 01, 1998
CUSIP Number: 912795AL5

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate 1/	Price
Low	4.970%	5.102%	98.744
High	5.000%	5.135%	98.736
Average	4.995%	5.131%	98.737

Tenders at the high discount rate were allotted 45%.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 26,290,723	$ 4,412,667
Noncompetitive	1,200,692	1,200,692
PUBLIC SUBTOTAL	27,491,415	5,613,359
Foreign Official Refunded	193,678	193,678
SUBTOTAL	27,685,093	5,807,037
Federal Reserve	3,117,430	3,117,430
Foreign Official Add-On	93,822	93,822
TOTAL	$ 30,896,345	$ 9,018,289

Bid-to-Cover Ratio = 27,491,415 / 5,613,359 = 4.90

1/ Equivalent coupon-issue yield.

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PUBLIC DEBT NEWS

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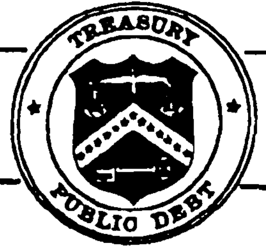

TREASURY SECURITY AUCTION RESULTS
BUREAU OF THE PUBLIC DEBT - WASHINGTON DC

FOR IMMEDIATE RELEASE
June 29, 1998

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Term:	182-Day Bill
Issue Date:	July 02, 1998
Maturity Date:	December 31, 1998
CUSIP Number:	912795AW1

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate 1/	Price
Low 2/	5.050%	5.254%	97.447
High	5.060%	5.265%	97.442
Average	5.055%	5.261%	97.444

Tenders at the high discount rate were allotted 31%.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 25,390,616	$ 3,869,416
Noncompetitive	1,128,791	1,128,791
PUBLIC SUBTOTAL	26,519,407	4,998,207
Foreign Official Refunded	2,283,022	2,283,022
SUBTOTAL	28,802,429	7,281,229
Federal Reserve	3,745,000	3,745,000
Foreign Official Add-On	1,106,378	1,106,378
TOTAL	$ 33,653,807	$ 12,132,607

Bid-to-Cover Ratio = 26,519,407 / 4,998,207 = 5.31

1/ Equivalent coupon-issue yield.
2/ $2,500,000 was accepted at rates below the competitive range.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
Remarks as Prepared for Delivery
June 30, 1998

Secretary Robert E. Rubin
Sasin Institute of Business Administration
Chulalongkorn University
Bangkok, Thailand

Let me say that it is really a great pleasure to be here and I am deeply honored to be at this great university which I know plays a very important role in educating the young men and women of Thailand.

As the future business leaders of this nation, your education at the Sasin Institute will provide a strong foundation for you to help meet the great and important challenges of your country. The fact that this Institute was established as a joint venture with two great American universities—the Kellogg Graduate School of Management at Northwestern University and the Wharton School of the University of Pennsylvania—reflects the close and long ties, the great feelings of friendship between the United States and Thailand. We believe very strongly that a growing, prosperous and vibrant Thailand is important to the political stability and economic well-being of Southeast Asia, and that the economic well-being of Southeast Asia is very important to the economic well-being and national security of the United States. Our nation has strongly supported Thailand's work, with the assistance of the International Monetary Fund, to reestablish financial stability and economic growth in the wake of your financial crisis. And we greatly respect and support the courage and leadership that your government has shown in moving to confront directly the challenges this crisis has presented. More generally, we will continue to work with great intensity with the International Monetary Fund, the World Bank, the Asian Development Bank and the international community, and all of the countries in the region to help Asia recover and to reestablish its financial stability and economic health. We believe deeply that a prosperous and successful Asia is critically important to the economic well-being of the American people.

Today, I would like to offer some reflections on the Asian financial crisis, which began almost one year ago. While it is still far too early to make definitive judgments on this momentous event, let me offer a few observations.

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From the very beginning, this crisis has presented unprecedented and enormously complex challenges to the international community. For example, a number of countries have had great difficulties at the same time, and events in one country have had substantial impacts on currencies, trade and economic activities in other countries in the region, and for that matter, in countries beyond the region. Moreover, the effort to combat the crisis has been made far more difficult because the largest economy in the region by multiples, and the second largest economy in the world, Japan, was in difficulty at the beginning of the crisis, and is now in recession. Clearly, in this era of the new global economy and new global financial markets, the actions of each nation can affect other nations as never before and each nation has a responsibility to address its respective challenges. Moreover, all of this was made even more difficult by the vast flows of private capital that have gone into the region in recent years, and in fact have fueled growth that helped to lift millions out of poverty, a result of these vast flows of foreign capital, of the development of a true global financial market. One observer said recently that the Asian financial crisis is the first economic crisis of the 21st century.

In Asia, although the situations in each country with difficulties were different in some respects, there were also some deep, common problems—weak financial sectors, noncommercial relationships amongst the banks, governments, and industrial companies, and a lack of transparency in financial transactions and government decision-making, to name a few—and all of this eventually led to severe financial instability. These problems are not and will not be self-correcting; they require the help of the international community and a reorientation of the role of government and the political will to implement that reorientation. Governments must turn away from the kinds of interventions in the economy that helped give rise to this crisis in the first place, and turn to the action necessary for restructuring and reform that are requisite for restoring growth. In the broadest sense, governments, in our view, must adhere on a sustained basis to sound macroeconomic policy and to deep and far-reaching structural reform programs. All of this will inevitably be a difficult path, it is the best and probably the only effective route back to financial stability, a resumption of economic growth and higher living standards.

The crisis, as you know better than anyone, has led to enormous hardships for the people of Thailand and the region. However, these hardships and economic difficulties are a product of the crisis, not of the reform programs. The reform programs are a response to the crisis, and economic circumstances, in my judgment, would be vastly worse and the hardship would last for far longer without effective reform.

At the heart of the international effort has been the International Monetary Fund, the World Bank, and the multilateral development banks. These institutions have been following a strategy of strengthening financial systems, especially banks; ending directed lending between the financial systems, the industrial sector and the government, opening markets, encouraging sound macro-economic policies and improving social safety nets. There are no sure or easy answers to these vastly complex and unprecedented problems. And the reform programs that have been implemented in Thailand and elsewhere represent the best judgments of the time of the actions

that will lead to recovery. Then, the programs have been adjusted as circumstances have warranted.

Much remains to be done to recover from crisis, but it's also true that much has been accomplished. For example, there was without doubt a serious risk of global contagion, of a spreading of crisis across the globe, that was avoided at the end of December in the situation in Korea. The private banking sector was on the verge of default and Korea's reserves were virtually depleted. The international community that coalesced—this was all basically in the last week of December—the international community that coalesced the IMF and World Bank and with American leadership helped catalyze a voluntary standstill and then extension, maturity extension, of credits from the international banking sector to the banking sector of Korea. Since then, I might add, Korea has very, very substantially increased its international reserves.

Beyond that, the governments of Korea and Thailand, after some initial difficulties in each case, have clearly committed themselves to strong reform programs and are moving forward in all of the areas I've just mentioned. The situation in Indonesia is obviously far more complicated. Elsewhere around the world, developing and transitioning countries have intensified actions on areas that they believe will make them less vulnerable to the kind of financial instability we experience in Asia today.

In all of the Asian countries that have been experiencing difficulties, even those countries that are in the process of implementing strong reform programs, economic activity is still declining. As we go forward, there are enormous challenges to be met by the people of the countries, the governments and the international community. In order for these countries to resume financial stability and economic health, banking sectors need to be put on a sound financial basis and non-commercial lending ended. Problems of corporate indebtedness need to be effectively addressed; impediments to trade and investment need to be reduced; and the social safety net needs to be improved, to name just a few.

Moreover and very importantly, there must be a political environment that supports sustained adherence to reform programs. Pursuing policies essential to success in the global economy is a very difficult task politically. The politics of reform must keep pace with the policies of reform, and that is true in the developing nations and that is true in the developed countries, very much including our own. Effective democratic institutions that take account of the concerns of government, business, labor and all affected parties provide, in our judgment, the most conducive environment for building effective public support for the requisite reforms involved in economic growth and economic success.

Let me now turn for a moment to Japan and China, both centrally important to the economic prospects of Thailand, the region, and very likely the world. The Japanese economy is probably the greatest success story, the greatest economic success story, of the past fifty years, but in recent years Japan 'ias had great economic difficulty. We have been deeply concerned about the weakness of the Japanese economy and the resulting weakness of the yen. It is critical to the

economic health of Thailand, the region and once again perhaps the world that Japan take the steps necessary to allow its underlying strengths to once again generate a strong economy, though this time led by domestic demand and a healthy currency. The world welcomed the recent fiscal stimulus program enacted in Japan and that is an important step forward. The focus of the world now is on Japan effectively addressing the problems in its banking sector in a manner that gains the confidence of world markets.

With respect to China, which I just visited with President Clinton, in our meetings Chinese leaders once again expressed a strong understanding of the great challenges they faced as they make the transformation to a market-based economy, and a strong commitment to meeting those challenges. They also reaffirmed their judgment that maintaining the RMB exchange rate is in their self interest, a judgment with which we agree. China's success in its reform program, and more generally, China's economic success is very important for China and, we believe, very important for the rest of the world and maintaining its exchange rate has been a source of stability for the region.

When I speak at home and elsewhere in the world on the Asian crisis, I always say that it is very important to step back for a moment and remember that the countries in the region have had decades of strong growth based on great underlying strengths—a strong work ethic, high savings rate, discipline, and an intense focus on education. I then say that over time, by addressing their problems, these countries can once again draw on those strengths and attract increased foreign investment, expand trade and return to sustained and vigorous economic growth. It will not be an easy path, but it is an accomplishment well within the reach of this region.

Let me now turn to Thailand for a moment. From the very beginning, the United States has supported a substantial and well constructed IMF program responsive to the problems that gave rise to the crisis in the first place. After the change in government, the new government in Thailand immediately committed itself to the reform program, and it worked steadily to implement its various parts.

The Thai government has pursued sound macroeconomic policies and made significant progress in beginning to restructure the banking sector. By closing 56 finance companies, requiring banks to recapitalize, and implementing stronger prudential standards, the government made a clear statement that it was breaking with past behavior and determined to put in place a financial system based on appropriate international standards. The government is moving ahead with auctions of assets of closed finance companies and is working toward necessary related improvements to the bankruptcy and liquidation laws. It is also putting in place social safety nets. About half the recent increase in the fiscal deficit target is to provide for greater spending on social welfare, training and emergency job creation programs. Moreover, all of this has been done in a regional context that is very difficult and it is likely to remain difficult for some time to come.

There is still an enormous amount of work that remains to be done in your country and because of the problems in the region and other factors, economic conditions are likely to

continue to be difficult for some time. Having said that, it is worth observing that with the reform programs that Thailand that putting in place, the baht has recovered from its low of 56 to roughly 42 today and interest rates have begun to decline somewhat. The path that you are on is the best and most likely means of getting back to solid growth and financial stability. Though this will be a hard path to follow, as I said a few moment ago, failure to implement reform would lead to far worse conditions and far longer duress. And once again, let me be clear, the United States stands with you as you face these challenges. From the very beginning, we supported a well-financed IMF program appropriately geared to the issues that gave rise to the crisis in Thailand and more recently we have said we would strongly support additional IMF funding if needed. Thailand's exports to the United States remain strong and American companies continue to invest in this country.

The experiences of the past year underscore the challenges for all nations with respect to the global financial system itself. The crisis has intensified the effort by the international community, an effort begun about three years ago, to strengthen the international financial architecture to better prevent crises from happening and when crises happen, to deal with them more effectively. We look to the experience of Thailand and other nations in dealing with crisis to help inform this process and, I might add, Thailand is very actively involved in the group of 22 nations that are intensely focused on moving toward proposals which will then be put forth to win international consensus.

The activity on architectural reform has focused on three areas: strengthening financial systems; increasing transparency and disclosure; and appropriate burden sharing by private sector creditors and investors in the event of a crisis. Let me say a brief word about each of these.

First, we must strengthen financial sectors. Difficulties in the Asian nations and difficulties in recent years in all developing countries that have experienced financial instability have either begun in or have been greatly exacerbated by badly flawed financial sectors. Efforts here need to focus on sound financial sector policies, such as banking decisions being made solely on a commercial basis, implementation of recently adopted core global standards with respect to banking; the development of a strong credit culture; and the possible development of new institutional multi-lateral arrangements for international surveillance of domestic financial systems.

Second, increased transparency and disclosure of financial information from governments and from the private sector so that investors and creditors have better information with which to make good decisions. We believe governments also need to become more open about their own policy decision-making processes. Having said that, this will only work if investors and creditors use that information effectively. One of the things that has most struck us about the Asian crisis, is that after problems began to develop and we spoke to the institutions that had extended credit or invested in the region so often we found that these institutions had engaged in relatively little analysis and relatively little weighting of the risks that were appropriate to the decisions. In addition, the IMF and the World Bank need to increase their transparency regarding the operations of those institutions.

Finally, and very importantly we must create mechanisms so that creditors and investors more fully bear the consequences of their actions. This is an exceedingly complex issue, but it is one we cannot shy from tackling. Because of the size of the markets and the size of the capital flows today, at some point there will simply not be sufficient official money to deal with the crises that could develop. Furthermore, we need to reduce the risk that providing official finance shields creditors and investors from the consequences of bad decisions and therefore sows the seeds of future crisis—the so-called, moral hazard problem.

Let me conclude by saying that after one year, much has been done but an enormous amount remains to be done in the time ahead. The situation, as I said at the beginning of my remarks, is unprecedented and enormously complex. And as we stand here today, there are indeed many complexities and uncertainties that lie ahead. I don't believe that there is any question that the best path for the countries experiencing difficulties is the path of sustained reform and of drawing on the underlying strengths that led to their great economic growth in recent decades. This will not be easy but over time it will provide the best route and perhaps the only route to renewal of stability and growth. And that is true in Thailand, and for the region as a whole. And let me say with absolute certainty that the United States stands with you in this effort. All of us—the developing nations and developed nations—have a tremendous stake in a successful Thailand, and a successful region.

As Thailand's future business leaders you will play a critical role in creating a prosperous future for your country. Ultimately, the private sector is central to creating opportunity and economic well being for your country, and as a consequence, you will be in the front lines of the effort to create long-term growth for your country and prosperity for the people of Thailand. You will benefit from a growing Thailand, but you also bear the responsibilities for helping make Thailand grow and for spreading the benefits of growth to all of the people in this country. I might add that I spent 26 years in the private sector and it was an extraordinary experience. But it has also been an extraordinary experience to then have the opportunity beginning five and a half years ago to come to the public sector and to use that experience to deal with the issues of the nation. I have found that to be an extraordinarily fulfilling experience. I hope that as you think about your careers, you consider the possibility of you too, bringing your education and your private sector experience to public service in Thailand. I wish you the best as you face the challenges of the years ahead, in building this great country. Thank you very much.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED UNTIL 2:30 P.M.
June 30, 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 July 9, 1998. This offering will result in a paydown for the Treasury of about $1,625 million, as the maturing publicly held weekly bills are outstanding in the amount of $14,623 million.

In addition to the public holdings, Federal Reserve Banks for their own accounts hold $7,034 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 $2,222 million as agents for foreign and international monetary authorities, which may be refunded within the offering amount at the weighted average discount rate of accepted competitive tenders. Additional amounts may be issued for such accounts if the aggregate amount of new bids exceeds the aggregate amount of maturing bills.

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

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

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Attachment

RR-2569

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 JULY 9, 1998

June 30, 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 AM 3	912795 BS 9
Auction date	July 6, 1998	July 6, 1998
Issue date	July 9, 1998	July 9, 1998
Maturity date	October 8, 1998	January 7, 1999
Original issue date	April 9, 1998	January 8, 1998
Currently outstanding	$10,788 million	$17,837 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

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