Department of the Treasury

PRESS RELEASES

The following numbers were not used:
140, 183, 222, 232, 241, 253, 280

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144, 190, 247, 254, 294, 313

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
October 1, 1999

STATEMENT BY TREASURY SECRETARY LAWRENCE H. SUMMERS ON FINANCIAL SERVICES INFORMATION SHARING AND ANALYSIS CENTER

Good morning. Welcome to the Treasury Department.

Let me start by thanking you for joining us this morning. I want to especially thank Chairman Arthur Levitt of the Securities and Exchange Commission, Vice Chairman Roger Ferguson of the Federal Reserve Board, Richard Clarke of the National Security Council and the representatives of the financial services industry.

It gives me great pleasure to be here today to speak about the newly announced financial services information sharing and analysis center (FS/ISAC). Through this center, financial services firms will be able to better protect their computer systems from attack by sharing information about such attacks. Such information will be shared anonymously, to encourage candor, and on a real time basis, to allow other firms to prepare immediately for similar attacks.

When I first joined Treasury some years ago, I can assure you we were not thinking about threats to the financial system emanating from viruses, trojan horses, logic bombs, or malicious code.

But we are thinking about those things now, and with good reason.

It is hard to believe that five years ago almost none of us were on the Internet, but today many of us would feel that our lives had been disrupted if our Internet service provider went down, even for a few hours. Anyone who has ever called customer service and been told, "Please call back later, our computers are down" knows this very well. It is simply not an option for American business, and in particular the American financial services system, to go back to serving its customers the old fashioned way should their computers go out.

Our increased reliance on computers and other technology raise a new set of security needs. A 1998 study by the Computer Security Institute found that 64 percent of companies

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polled reported information system security breaches, an increase of 16 percent over the prior year. The estimated total financial loss from those breaches grew 36 percent compared to the reported losses of 1997.

As damaging as these attacks have been, the vast majority has been conducted by disgruntled individuals. We face a future, though, where criminals, terrorists, or even nation states may use the same tools in a more organized way for darker purposes.

Recognizing early on the potential for cyber attacks to cause damage to the nation's military and private sector infrastructure, the President in 1996, formed the President's Commission on Critical Infrastructure Protection; and in May 1998, he signed Presidential Decision Directive 63. Richard Clarke of the NSC has overseen these efforts as National Coordinator for Security Infrastructure Protection and Counter-Terrorism.

The President's directive recognizes that our nation's economy increasingly relies on the smooth functioning of computer systems. And the increasing use of open systems such as the Internet, both in the private sector and even the military, creates a new vulnerability.

The financial services industry is no exception. Thus, Presidential Decision Directive 63 directed the Treasury Department to work with representatives of the banking and finance sector to enhance the security of the industry's information systems. We at Treasury have worked closely with the information security professionals assembled here today and many others to carry out that mandate. But we have always recognized that the financial services sector itself must have the lead.

The information sharing center that is opening today is a tribute to the determination of the member firms represented here to get out in front of the growing information security problem. I would in particular like to thank Steve Katz of Citigroup, who has served as our private sector coordinator, and Stash Jarocki of Depository Trust Company, who has headed the task force putting together the center.

The industry ISAC can play a key role in bolstering the confidence of the American public in the security and stability of our financial system. By joining together to share information about cyber attacks and ways to defeat them, the financial services firms represented here have taken an important step both for their own security and that of the nation. We believe that the participation of some of our largest financial services firms will serve as an example leading others. And we hope that the financial services center can serve as a model for other sectors of the economy wishing to protect themselves in this way.

The support of the Securities and Exchange Commission and the Federal Reserve Board will be critical to the success of this initiative, and I thank them for their interest. I am also grateful that the Federal Reserve, in its role as payment system provider, has expressed interest in becoming a participating member of the Financial Services ISAC.

In conclusion, I want to thank everyone who has contributed so much to the success of this undertaking, and thank you all for being here today.

I would now like to turn the microphone over to Steve Katz, our private sector coordinator, who will describe the center in greater detail.

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FOR IMMEDIATE RELEASE
October 1, 1999

Contact: Steve Posner
(202) 622-2960

**TREASURY SECRETARY SUMMERS ANNOUNCES
FINANCIAL SERVICES INFORMATION SYSTEMS SECURITY FACILITY**

Treasury Secretary Lawrence H. Summers on Friday announced the opening of a banking and financial services information security facility, the Financial Services Information Sharing and Analysis Center (FS/ISAC).

The Center is a joint public/private sector initiative designed to ease the sharing of information about cyber-threats within the financial services industry. It enhances the industry's ability to prevent, detect and respond to attacks on the industry's technological infrastructure by providing an anonymous venue for rapid distribution of information about such threats.

"New types of crime require new types of solutions," Treasury Secretary Lawrence H. Summers said. "This kind of private sector cooperation is central to the preservation of the financial security of Americans and the national security of the United States."

President Clinton's May 1998 Presidential Decision Directive 63 (PDD-63) directed the Treasury Department to lead the efforts of the banking and finance industries in securing their information systems. This new facility, which is managed by a private contractor and fully funded by participating corporations, is the product of this coordinated effort.

Currently, 12 financial services organizations have signed a letter to confirm their interest in participating in the Center. They are: Citigroup, Bank of America, Bank of New York, DTC, Vanguard, Merrill Lynch, Morgan Stanley, JP Morgan, Fidelity, Sun Trust, SIAC and the NY Federal Reserve Bank.

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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
October 04, 1999

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Term:	91-Day Bill
Issue Date:	October 07, 1999
Maturity Date:	January 06, 2000
CUSIP Number:	912795DB4

High Rate: 4.730% Investment Rate 1/: 4.869% Price: 98.804

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 84%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 24,071,045	$ 7,120,145
Noncompetitive	1,271,164	1,271,164
PUBLIC SUBTOTAL	25,342,209	8,391,309 2/
Foreign Official Refunded	115,594	115,594
SUBTOTAL	25,457,803	8,506,903
Federal Reserve	3,874,320	3,874,320
Foreign Official Add-On	49,406	49,406
TOTAL	$ 29,381,529	$ 12,430,629

Median rate 4.710%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 4.630%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 25,342,209 / 8,391,309 = 3.02

1/ Equivalent coupon-issue yield.
2/ Awards to TREASURY DIRECT = $973,928,000

http://www.publicdebt.treas.gov

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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
October 04, 1999

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Term:	182-Day Bill
Issue Date:	October 07, 1999
Maturity Date:	April 06, 2000
CUSIP Number:	912795DQ1

High Rate: 4.870% Investment Rate 1/: 5.076% Price: 97.538

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 44%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 20,858,688	$ 4,218,888
Noncompetitive	1,174,256	1,174,256
PUBLIC SUBTOTAL	22,032,944	5,393,144 2/
Foreign Official Refunded	2,111,656	2,111,656
SUBTOTAL	24,144,600	7,504,800
Federal Reserve	3,530,000	3,530,000
Foreign Official Add-On	903,344	903,344
TOTAL	$ 28,577,944	$ 11,938,144

Median rate 4.860%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 4.770%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 22,032,944 / 5,393,144 = 4.09

1/ Equivalent coupon-issue yield.
2/ Awards to TREASURY DIRECT = $878,521,000

http://www.publicdebt.treas.gov

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED UNTIL 12:30 PM EDT
Text as prepared for delivery
October 5, 1999

**"TOWARD A 21st CENTURY FINANCIAL REGULATORY SYSTEM"
TREASURY SECRETARY LAWRENCE H. SUMMERS
REMARKS BEFORE THE WOMEN IN HOUSING AND FINANCE
WASHINGTON, DC**

Let me start by congratulating Women in Housing and Finance on reaching its 20th anniversary. I gather that this was celebrated with quite a magnificent gala two weeks ago. I was also pleased to see that among the outstanding women honored were Ellen Seidman and Julie Williams from Treasury. Your organization has contributed to making accomplishments like theirs possible.

I would like to take the opportunity today to talk about legislation that, if it is done right , could make an important contribution to strengthening our financial system for the 21st century.

The American financial system is today stronger and more competitive than it has ever been - and our financial institutions the most sophisticated and advanced in the world. The financial system_serves like the central nervous system of the human body, ensuring that all the other parts of the system respond appropriately. We are fortunate that ours is functioning well

There is, however, no cause for complacency. And as policymakers, we must keep our laws in sync with rapid changes occurring in the financial services industry: notably, the emergence of new instruments and new market actors; increasing globalization; and the growing trend toward greater consolidation, both within the financial services sector and across borders.

As we have watched financial trends at work around the world, we have learned the difficult balance that governments must strike in regulating their financial services system:

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- We have learned that financial systems work best when they are competitive and where market forces are channeled to produce greater choice and lower costs for consumers.

- And they work least well when market participants are encouraged to maximize their access to governmental benefits, at the expense of their business and their customers.

Our challenge is much the same as that which other nations face. We must allow competition to work. In the context of the current legislative debate, that primarily means allowing common ownership of banking, securities and insurance firms.

The greatest benefit of the financial modernization bill now in conference would be the repeal of archaic restrictions in our current laws that prevent this and thereby prevent any one financial services firm from offering a full range of products. The walls created by these restrictions were sustainable when the banking, securities, and insurance industries were more static. In today's more fluid environment, those walls need to come down for financial services firms to serve their customers efficiently.

If it can be done without compromising other critical objectives, repeal of the common ownership restrictions of current law would be an important boost to our financial system. Our leadership of the world's financial markets would be enhanced. And consumers would see the benefits in the form of greater innovation and lower prices. For example, we estimate that every one percentage point decline in the costs of financial intermediation could save consumers $3.5 billion per year.

That is why we want a financial modernization bill to pass. But it must be the right bill. This will be the primary focus of my remarks today.

I. Key Aspects of the Current Financial Modernization Bills

We are at an important juncture in the life of financial modernization legislation. On the one hand, our experience with the House bill has taught us that by working together in a bipartisan manner, Congressional Democrats and Republicans and the Administration can produce legislation. On the other hand, the conference procedure announced last week -- with the bill to be written by three Committee chairmen and amended only with bicameral committee approval -- appears likely to lead to partisanship and division.

While we share the leadership's desire to see this legislation move forward, we think that any partisan approach will not ultimately serve our shared interest in passing a bill. We stand ready to work with all interested parties, as we have been doing with great vigor for some time. But we must all recognize that this highly complex legislation - which many before us have tried and failed to achieve - requires the participation of *all* the interested parties if it is to survive.

I want a financial modernization bill that the President can sign - and I believe such a bill can be produced only on a bipartisan basis. I remain hopeful that we can achieve such a bill -- and achieve it this year. That said, the President has made clear that there are some principles that he will not sacrifice in order to pass legislation.

In particular, he has stated the he would veto a bill that:

- Prohibits banking organizations from choosing the structure that is right for them.
- Erodes the relevance of the Community Reinvestment Act.
- Fails to include adequate protections for consumers.
- Or breaks down the walls separating banking and commerce.

Let me consider each of these four principles in greater detail.

1. Organizational Choice

We have learned over the years that drawing arbitrary lines hurts competition. We have also learned that once those lines are drawn, it takes decades to redraw them. That is why we believe that banks should have the flexibility to establish a subsidiary to engage in new financial activities. They should not be forced to divert business opportunities to an affiliate, reduce capital by funding the new activity through dividends, and lose the earnings from their own innovation and customer base.

At the same time, we believe that a modernized financial system should retain some separation between banking and other financial activities. The alternative, universal banking, is popular around the world, but I believe is the wrong choice for this country at this time. Thus, although the House bill allows common ownership of banking, securities, and insurance firms through subsidiaries or affiliates, both bills still require those activities to be conducted separately within an organization, subject to functional regulation and funding limitations.

With symmetric restrictions in place, we believe that the House bill strikes an appropriate balance between organizational choice, on the one hand, and providing adequate protections of taxpayers on the other. And so, too do the FDIC and many independents analysts and economists: from the American Enterprise Institute to the Brookings Institution.

This is an important issue, and one that we will continue to pursue and I hope resolve. As most of you already know, we have been asked by the Congressional leadership to discuss this issue with the Federal Reserve Board, and those discussions are ongoing.

2. Effective Protection for Communities

We have made clear from the start of these debates that a bill dedicated to expanding bank powers must also ensure that all communities reap the benefits: and, more specifically, that as we create a new financial system, we preserve the relevance of the Community Reinvestment Act (CRA).

As with any law, regulators should always be vigilant in ensuring that the law is applied effectively and burdens are minimized to the greatest extent possible. But CRA is working.

In 1998 alone, banks and thrifts made more than $33 billion in small business loans in low and moderate-income areas, and more than $16 billion in other community development loans. Home Mortgage Disclosure Act data shows that from 1993 to 1998, home loans to low and moderate income borrowers by 64 percent, well above the rate of growth of the total market.

As we work to modernize our financial system, we need to make sure that CRA keeps working for our communities. That is why we have insisted that:

- Modernization legislation include a provision that banks and thrifts have and maintain an adequate CRA record in order to engage in newly authorized financial activities.

- There should be no weakening of existing CRA provisions in the bill.

The Senate bill not only fails to include a requirement with respect to newly authorized activities, but also contains provisions that would seriously weaken the CRA. The House bill meets this test and preserves CRA's relevance for the future.

3. Protections for Consumers

Financial privacy has gained much greater prominence as an issue since the last Congress. Much of the benefit of financial modernization is synergy, and part of that synergy is derived from the sharing of information from developing innovative products to relieving customers of the burden of reintroducing themselves to an institution each time they do business.

Nonetheless, revelations about financial service industry practices have come as a shock to policy makers and many consumers, who thought that financial services firms preserved the confidentiality of personal customer information. Our challenge is to protect the privacy of consumers while preserving the benefits of competition and innovation.

Americans should have the opportunity to participate in the modern means of electronic payments and receipts without subjecting themselves to behavioral profiling. Just as they would not expect a letter carrier to read their mail or record their correspondence, they do not expect a bank processing a check to record, store and evaluate their personal behavior. Consumers applying for mortgage loans should not have to worry that their bank is mining their checks to determine how many are written out to doctors or pharmacies.

Providing consumers with notice and choice on the use of their financial information represents an important counterbalance to the increased breadth of financial institutions permitted under the bills. Consumer privacy safeguards should apply to sharing or sale of information both outside and within financial organizations.

4. A Bright Line Between Commerce and Banking

As I noted earlier, both bills allow common ownership of all types of financial firms, albeit in functionally regulated units. We believe that when it comes to *non-financial* firms, even greater separation is appropriate, and that common ownership should be prohibited. One of the lessons of the Asian experience of the past few years is that financial institutions tend to make bad decisions when it comes to lending to their corporate owners or siblings. The synergy gains of combining financial and non-financial firms are not great - and the potential downside is considerable.

Thus, I believe that the United States economy has been well served by preserving a clear separation between those who allocate capital and the majority of those competing for it. That is why we oppose provisions in the Senate bill that would allow banking and commerce to be mixed together under the guise of merchant banking. And it is why we oppose a provision in the House bill that would allow the transfer of unitary thrifts to non-financial firms. Surely, this is an area where we need to move cautiously, at least until we gain experience with the effects of broader financial firms.

The issues I have just discussed are particularly critical to the Administration. But there are a number of other provisions in the bill that will have an important impact on the success of our financial regulatory system in the next millennium. For a bill to redeem the promise of the many years that we have waited, it must reach reasonable outcomes on issues such as Federal Home Loan Bank reform, securities regulation, and insurance sales, among other issues.

II. Continuing Financial Modernization

Passing the right legislation is important for our financial system and for the American people. But modernization is an ongoing process, not a single event - or a journey with a single destination. This legislation would not address all of the issues that are involved in building a modern financial system. Even in the near term, many important further questions remain:

How do we protect the system as a whole from the failure of one institution, and make sure that all, in the public and private sectors, understand that no institution is too big to fail?

- With respect to banking, Congress and regulators have taken significant steps to reduce creditors' expectations that the government would protect them from loss, but new measures need to be studied. More broadly, the President's Working Group on Financial Markets has now supported new requirements that public companies include in their financial statements their exposure to highly leveraged institutions, including banks and hedge funds. Debates about systemic risk should also now include government-sponsored enterprises, which are large and growing rapidly. For all types of institution, we need to explore further ways to enhance transparency and market discipline and reduce systemic risk.

How do we build a system of capital regulation that is as modern as the markets?

- The system of capital standards upon which our supervisory system increasingly relies needs to be able to capture market risk, credit risk, liquidity risks, and other forms of risk if it is to serve the purpose for which it was intended. Value-at-risk models represent an important step toward capturing some of these. But they lead to further questions as to how best to capture the model risk that is inherent in such techniques. With the leadership of Bill McDonough the Basle Committee has proposed significant changes to the capital regulations applied to banks around the world. This debate is as an important one, and I urge you all to be part of it.

How do we ensure that the benefits of modern financial services are more widely felt?

- The new technologies that are revolutionizing the financial services industry have the potential to create a so-called digital divide, but they also have the potential to make banking more accessible for consumers currently outside the system. In establishing the electronic transfer accounts and implementing EFT 1999, the Treasury has taken some first steps toward this. But we can and must think of ways to go further.

How can we ensure that our consumer protection laws keep up with the growth of electronic commerce and electronic banking?

- The President took an important first step in this area when in May he announced a series of initiatives on financial consumer protection. We need to pursue those initiatives. We also need to make certain that the disclosures required by our consumer protection laws have the same meaning and force when contracting on line that they do when the contract is more traditional. And we must do more to prevent fraud and abusive practices from spreading through electronic commerce.

How do we best respond to the greater risk to the insurance funds posed by a much more consolidated banking industry?

- A recent FDIC study found that banking industry consolidation has increased the insolvency risk of the insurance fund by tying its health more than ever to that of the largest banking organizations. Better, more market-based, supervisory tools would help reduce this risk. And so would merging the thrifts and bank deposit insurance funds, since this would eliminate the needless harm to public confidence that would result when funds were available in one, but could not be used to support the other.

III. Concluding Remarks

Let me end my remarks where I began: our financial industry is stronger and more competitive than ever. To help ensure that it remains competitive, we want a financial modernization bill -- but we want the right bill. After so many years' of waiting, we now have an historic opportunity for lasting and important reform. But that same long wait also gives us a responsibility to do it right. Thank you.

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Weekly Release of U.S. Reserve Assets

October 6, 1999

The Treasury Department today released U.S. reserve assets data for the week ending October 1, 1999.

As this table indicates, U.S. reserve assets totaled $73,032 million as of October 1, 1999, as compared to $73,461 million as of September 24, 1999.

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

1999 *Week Ending*	Total Reserve Assets	Gold Stock 1/	Special Drawing Rights 2/	Foreign Currencies 3/ ESF	Foreign Currencies 3/ SOMA	Reserve Position in IMF 2/
September 24, 1999	**73,461**	11,046	10,249	16,155	16,158	19,852
October 1, 1999	**73,032**	11,046	*10,306*	15,857	15,860	*19,964*

1/ Gold stock is valued monthly at $42.2222 per fine troy ounce. Values shown are as of August 31, 1999. The July 31, 1999 value was $11,048 million.

2/ SDR holdings and the reserve position in the IMF are based on IMF data and valued in dollar terms at the official SDR/dollar exchange rate. Consistent with current reporting practices, IMF data for September 24, 1999 are final. Data for SDR holdings and the reserve position in the IMF shown as of October 1, 1999 (in italics) reflect preliminary adjustments by the Treasury to the September 24, 1999 IMF data.

3/ Includes holdings of the Treasury's Exchange Stabilization Fund (ESF) and the Federal Reserve's System Open Market Account (SOMA). These holdings are valued at current market exchange rates or, where appropriate, at such other rates as may be agreed upon by the parties to the transactions.

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FOR IMMEDIATE RELEASE
October 6, 1999

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SECRETARY SUMMERS ANNOUNCES $112 MILLION IN CDFI FUND AWARDS

Treasury Secretary Lawrence Summers today announced the recipients of the Community Development Financial Institutions Fund's (CDFI) awards. The awards, totaling more than $112 million, are being awarded to banks, thrifts and community development financial institutions through the CDFI's Bank Enterprise Award Program and the CDFI Program's Core, Intermediary and Technical Assistance Components.

"The CDFI Fund is helping to rebuild communities across the country," said Secretary Lawrence Summers of the U.S. Department of the Treasury. "By creating partnerships between institutions and low-income communities, CDFI Fund award recipients are helping to make financial services available to all Americans."

The CDFI Fund's mission is to promote local growth and access to capital by directly investing in and supporting CDFIs and by expanding traditional financial institutions' lending, investment, and services within underserved markets. Since 1996, the CDFI Fund has provided more than $300 million to promote community and economic development and encourage private sector investment to underserved markets.

The CDFI Program leverages Federal dollars by requiring that each CDFI provide at least a one-to-one match with funds from non-Federal sources for each dollar of assistance it receives. In addition, CDFI award recipients are held to performance standards that help ensure that the CDFI Fund's investment will result in a significant community impact. Under the CDFI Fund, local organizations make the decisions about how to best meet community needs.

Please visit the Fund's website www.treas.gov/cdfi for a complete listing of the 1999 CDFI Fund awards.

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DEPARTMENT OF THE TREASURY

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Embargoed until 3:30 p.m.
Text as Prepared for Delivery
October 7, 1999

Statement by
Treasury Deputy Secretary Stuart E. Eizenstat on
Conclusion of Meetings on Holocaust Slave and Forced
Labor Issues

Over the last two days, Count Lambsdorff and I, on behalf of our governments, have been meeting here with the representatives of the Governments of Belarus, the Czech Republic, Poland, Russia, Ukraine, and the State of Israel, the Conference on Jewish Material Claims against Germany, and the German economy, as well as a number of attorneys representing survivors and their heirs in lawsuits against German companies for acts arising out of the Nazi-era.

The focus of our discussions has been to agree on the establishment of a German Foundation that would provide some measure of justice to former forced and slave laborers who were required to work for German industry or the Nazi régime, as well as to other victims of the Nazi period who suffered at the hands of German industry during this period.

All of the parties have had the chance to present their views, to us and to one another, on the best way to resolve these issues, which have had such extraordinary resonance in the courts, the legislatures and among the public on both sides of the Atlantic.

We have made a great deal of progress in the last two days on the establishment of mechanisms for resolving these issues without resort to lengthy litigation.

Today, I would like to announce some of the most important accomplishments from our meetings this week. I will list them briefly, and then I will make more detailed comments:

1. We have resolved the difficult issue of eligibility.
2. We have agreed on a structure for resolving all cases concerning damages to property, such as banking.

3. We have essentially agreed on a mechanism for providing the German companies with the legal peace they have sought from the beginning of this process.
4. And, because of the significant progress we have made on all of the substantive and procedural issues concerning the German Foundation, for the first time, German enterprises and the German government have placed a concrete financial offer on the table. Their offer of six billion D-marks is much higher than the amount that that the companies and the government had initially considered earlier this year and represents a basis for serious discussion. Their offer covers each category that we have been discussing over the past several months: slave laborers, forced laborers, other cases of injury caused by German private industry during World War II, cases involving damage to property, such as banking and insurance, and the future fund for humanitarian and educational purposes, which will also be available to heirs.

The other parties have not accepted the German offer. Their responses have varied widely among them. The other parties should now step forward with a reasoned response. For this process to be successful, both sides need to continue to show the flexibility that has enabled us to make the progress we have achieved to date.

I am encouraged by the fact that, despite the differences on money, the parties have agreed to continue to meet. We plan to have our next meeting in Germany in November.

Let me now go into some of the details of our accomplishments.

Eligibility of Claimants We resolved the eligibility issues, which centered on whether to include "relocated" workers, or only those who were "deported", that is dislocated into the German Reich and whether to include agricultural workers. This was accomplished in the following ways. First, the German economy and government have agreed to establish a combined foundation, which would make payments to both private and public sector workers. Second, it has been agreed that the German Foundation will make lump-sum payments, for Category B laborers, to the Central and Eastern

European Reconciliation, which could then distribute these funds to those they believe to be most deserving. This would give them the discretion to make payments to private and public relocated and deported workers, as well as agriculture laborers. It would be their decision.

The German Foundation would reserve a portion of funds to make payments to forced laborers outside of these five Central and Eastern European countries.

Banking & Other Property. Regarding banking and other property issues, we agreed that there should be a fixed amount allocated to banking and other property cases, and on the creation of a claims process with an international adjudication panel. In addition, to address the moral aspect of the involvement of German Banking in the Nazi terror, it was agreed to establish a separate humanitarian fund with the funds not used in the claims process. Distribution of this humanitarian fund would be worked out with an appropriate nongovernmental organization.

Other Cases. We have also agreed to create another category entitled "other cases" for those who do not fit into forced labor, slave labor, banking or other property claims. This category could consider cases, for example, of victims of medical experiments and others who suffered at the hands of German industry not otherwise covered by the Foundation. This new category is very important because it would broaden the scope of the Foundation to cover essentially all cases against German industry arising out of the Nazi period.

Legal Closure. We have essentially achieved agreement on all the basic issues regarding legal closure so that the German corporations will have the legal peace they seek in the United States. We now only need to work out some technical additional details.

Funds for CEEs. Regarding the German financial offer, I should also note that the total lump sum has fixed amounts for each category of cases.

Thus, the majority of funds for slave labor and forced labor would go to residents of Central and

Eastern Europe who have benefited little from past or existing German compensation programs.

Superiority of Negotiated Settlement. I have always felt that the best way to resolve these claims is through a negotiated settlement rather than through a lengthy series of trials. There are two reasons for this: the age of the survivors -- now around 80 years -- necessitates an expeditious solution, since 10 percent of survivors pass away each year. Second, the number of victims who would be covered by the German foundation would be much greater than those covered by the lawsuits pending in United States courts. Thus, justice would be better served if agreement can be reached to establish a German foundation, rather than putting the aging victims at risk in uncertain and lengthy litigation.

This is not an ordinary commercial negotiation. It has a higher purpose. For the survivors, it is meant to bring some relief, before they pass away, to those who were so cruelly exploited and have been waiting so long for a measure of justice. On the other side, a new generation of German industry is willing to undertake responsibility not just for the past actions of their own companies, but for all companies. By doing this, they can make a powerful case for finally bringing closure to the economic turmoil of the Nazi era.

It is in pursuit of these higher purposes that Count Lambsdorff and I intend to stay the course in these negotiations. We are gratified the other participants have indicated they will be with us.

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.
October 7, 1999

CONTACT: Office of Financing
202/691-3550

TREASURY OFFERS 13-WEEK, 26-WEEK, AND 52-WEEK BILLS

The Treasury will auction three series of Treasury bills totaling approximately $27,000 million to refund $26,196 million of publicly held securities maturing October 14, 1999, and to raise about $804 million of new cash.

In addition to the public holdings, Federal Reserve Banks for their own accounts hold $13,672 million of the maturing bills, which may be refunded at the highest discount rate of accepted competitive tenders. Amounts issued to these accounts will be in addition to the offering amount.

The maturing bills held by the public include $5,593 million held by Federal Reserve Banks as agents for foreign and international monetary authorities, which may be refunded within the offering amount at the highest 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 $4,518 million of the original 13- and 26-week issues and $1,075 million of the original 52-week issue.

TreasuryDirect customers requested that we reinvest their maturing holdings of approximately $928 million into the 13-week bill, $761 million into the 26-week bill, and $469 million into the 52-week bill.

This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular for the Sale and Issue of Marketable Book-Entry Treasury Bills, Notes, and Bonds (31 CFR Part 356, as amended).

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

oOo

Attachment

LS-146

HIGHLIGHTS OF TREASURY OFFERINGS OF BILLS
TO BE ISSUED OCTOBER 14, 1999

October 7, 1999

Offering Amount	$9,000 million	$8,000 million	$10,000 million
Description of Offering:			
Term and type of security	91-day bill	182-day bill	364-day bill
CUSIP number	912795 DC 2	912795 DR 9	912795 EG 2
Auction date	October 12, 1999	October 12, 1999	October 13, 1999
Issue date	October 14, 1999	October 14, 1999	October 14, 1999
Maturity date	January 13, 2000	April 13, 2000	October 12, 2000
Original issue date	July 15, 1999	October 14, 1999	October 14, 1999
Currently outstanding	$12,535 million	---	---
Minimum bid amount and multiples	$1,000	$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 highest 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 Rate......... 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................ By charge to a funds account at a Federal Reserve Bank on issue date, or payment of full par amount with tender. *TreasuryDirect* customers can use the Pay Direct feature which authorizes a charge to their account of record at their financial institution on issue date.

TOTAL P.02

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED UNTIL 7:30 PM EDT
Text as Prepared for Delivery
October 12, 1999

"THE UNITED STATES AND CHINA AT THE DAWN OF A NEW CENTURY"
TREASURY SECRETARY LAWRENCE H. SUMMERS
REMARKS TO THE ASIA SOCIETY ANNUAL DINNER
NEW YORK, NY

Thank you. We meet at an important time for Asia as it seeks to put the recent financial crises behind it and build the basis for strong and sustainable long-term growth into the next millennium. The outcome will be the result of the individual and collective efforts of every country in the region. But perhaps nothing will be more important to Asia's long-term future and American interests in Asia than what takes place in the region's most populous nation. In that spirit, I would like to focus my remarks today on China.

Earlier today, I was pleased to announce that the 12th meeting of China-United States Joint Economic Committee will be held in slightly less than two weeks' time, in Beijing. Meetings between the finance ministers of what may soon be the world's two largest economies ought to be regular events - and increasingly, they are.

This 12th Session comes at an important moment for the Chinese people - coming as it does in the wake of the recent fiftieth anniversary celebrations - and an important time for China's economic transition. I expect that the discussions will focus on international economic issues of mutual concern, macro-economic and structural questions facing China, international law enforcement issues such as combating money laundering, and of course, the very live question of China's entry into the World Trade Organization.

I would like today to take the opportunity to place these discussions in their broader context.

When we convene this year's JEC it will be just over twenty years since Secretary Blumenthal first made his historic trip to Beijing to negotiate the terms for normalizing our trade relations to China. Since then:
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*U.S. Government Printing Office 1998 - 619-559

- China's economy has grown by more than 350 percent in real terms.

- It has risen to being 11th largest trading nation in the world.

- The number of Chinese with access to a television has risen one hundred-fold, to one billion.

Ever since the rise of Assyria and Sparta, emerging economic strength and major changes in the economic balance of power have raised the specter of war and conquest. In this century alone we have seen two World Wars that followed closely on the emergence of major new economic powers. And the pace of economic change in China - and indeed through much of Asia - is literally unprecedented in history, with standards of living for billions of people quadrupling or more in a single generation.

That this has so far been achieved without major conflict, despite the pervasive rivalries between the peoples of Asian nations, is a reflection of the progress that has been made across the region toward openness and integration. And it speaks to the success of postwar international institutions in helping to cement that progress. But if the next quarter century in Asia is to be as successful as the last it will be crucial that China define its greatness in the right way and that it fit into the global economic system.

As President Clinton has said, if we have learned anything in the last few years from events in Russia it is that the weaknesses of great nations can pose as a big a challenge to the United States as their strengths. Our long-term strategy must be to encourage the right kind of success in China: to help it grow into a strong, prosperous and open society, to come together not fall apart, and to become part of institutions that promote our deepest values and interests and can build mutual trust.

For all its recent progress, China has enormous challenges to overcome if it is to find a successful long-term path:

- As Gerald Segal has noted, the home to one fifth of mankind still ranks 107th - next to Namibia - in the United Nations' Human Development index.

- Each year many millions of people migrate to the cities in search of jobs, and in many places unemployment is now well into double digits.

- Drugs and arms trafficking - even piracy - and corruption all pose a rising threat.

In the end, the solutions to these problems will lie in the choices that China makes. But its success will also depend on the choices we make in our regional and bilateral relations with China. Let me say a few words about the largest economic challenges that China faces today. I will then consider the role that regional and global efforts can make, and the core priorities for the United States.

I. Core Economic Challenges for a 21st Century China

China's remarkable progress since 1979 has been based on a simple and potent recipe: freeing labor from the land, and allowing the multiplier to operate on a vast stock of human resources that previously went untapped. After two decades, this has placed China, if not at the beginning of the end of its market transition then certainly at the end of the beginning.

In a sense, China's problem now is the same as the one that Japan and other rapid industrializers have faced. For catch-up, by definition, can only take you so far. As we are all learning, continuous growth in a new economy demands continuous improvement in efficiency and innovation.

There's a saying in Shanghai these days that when foreign investors say they're in China for the long-term - it means they have been there 5 years and they're still losing money. As the leadership recognizes, when it comes to laying the basis for this more difficult kind of growth, China has a long way to go - and profound obstacles still to overcome.

Three complex and interrelated problems stand out.

First, financial sector reform.

Financial markets do not just oil the wheels of economic growth. They *are* the wheels. Well-functioning financial markets are the difference between getting a country's savings into high-return investments - and tying up those precious resources in moribund state-owned-enterprises or cash hoards under mattresses. But today, far from being a spur to future growth, China's financial sector is probably its gravest handicap.

As Nicholas Lardy has noted, the Chinese financial sector has a number of features that were also present in the Asian economies that went on to suffer crises: notably a very rapid build-up in domestic credit, an equally dramatic increase in the leverage of industrial enterprises, and a rising share of non-performing loans. However, the basic nature of the financial problem in China is very different than in those economies, relating more to the interlocking relationship between SOEs, banks and the government and its fiscal and broader economic consequences.

Recognizing the seriousness of the problem, the Chinese government has made financial sector reform a high priority in recent years, and has undertaken important reforms. Promising recent steps include the reorganization of People's Bank of China along regional lines to reduce local political pressure on supervisors, and the creation of RTC-style asset management companies to deal with non-performing loans at state commercial banks.

No one should imagine that breaking the dependence of loss-making SOEs and their workers on a near-bankrupt financial sector will be easy - or that the task of building a stable, well-capitalized, truly commercial financial system is close to being completed. But nor should they imagine that China can achieve a stable and prosperous transition without these things.

Second, state-owned-enterprise reform and reducing state economic controls.

The success of China's reforms since 1979 has been to allow competitive forces to take hold of a rising share of the economy. But as we learned from Hungary and other partial reformers in the former Soviet bloc in the 1970s and 1980s - loss-making industrial SOEs and widespread central controls are dragging burdens that a growing economy cannot carry indefinitely.

Reform of China's loss-making SOEs was the focus of the recent Party Plenum, and the leadership has reaffirmed its commitment to resolve the problem by the end of next year. However, while there have been some recent achievements in the textile and coal sectors, it is fair to say that SOE reform remains on a cautious path - and the state's control over key sectors of economic activity looks set to be retained for some time.

To be sure, with unemployment and underemployment already a serious problem in China, we cannot expect changes that have been resisted so long to come easily or quickly. But if there is one lesson of recent events around the world must be that in the end, government direction of economic activity, limited competition, and promotion and protection of particular industries does not produce the lasting growth in living standards that China needs. And it bears emphasis that growth is itself threatened by a situation in which the SOE sector absorbs perhaps 85 percent of bank loans in the economy - while producing less than one third of its output.

Third, building the intangible infrastructure of a market economy.

China wants to succeed in the global economy of the 21st century. And in this new world, even more than in the century just ending, I am convinced that the quality of governance will be a key determinant of that kind of success. Ultimately, the long-term challenge for China must be the same as that facing every other economy in Asia today. This is to create an institutional environment in which investment and innovation can flourish.

That means, among other things: sound money, the rule of law, fair tax laws and enforcement; private ownership and free land markets; intellectual and physical property rights; independent courts that enforce laws and contracts; strong banks that safeguard peoples' savings and channel those savings to productive investment; securities markets that deter fraud and protect investor rights; social spending targeted to those really in need. And it means transparency and a free market in ideas.

In its reforms of the financial sector, especially, the Chinese leadership is taking some first difficult steps toward these things. But as the world moves from an industrial to an information era, the degree of freedom will surely become an ever more important prerequisite for economic success. There is no firewall between economic freedom and freedom in its many other dimensions. The free flow of information is essential to free society, to free markets and to a strong financial system.

In addition to all of these profound challenges for Chinese economic reform we should remember that other long-term trends will be imposing their own constraints in the years to come:

- China's population will be aging enormously. Today there are around ten workers in China for every pensioner, in fifty years' time there will be only three.

- And China will have to cope with the human and economic consequences of environment degradation. China's air and water - particularly in urban areas - are now among the polluted in the world.

At bottom, as President Clinton has said, "China's greatest challenge in the coming years will be to maintain stability and growth at home by meeting, rather than stifling, the growing demands of its people for openness and accountability." Seen in this light, closer integration of China into the world economic system acquires a dual significance: as a force for economic success in China and as a force for enhanced regional and global stability.

II. China As Regional Anchor

The United States has supported China's efforts to play a constructive role in the regional institutions and decisions that will help shape Asia's economic future - in its strong and continued participation in APEC and, most recently, in its response to the recent crises.

Throughout this difficult period President Jiang and Premier Zhu have made clear that they recognize China's own stake in a lasting restoration of growth and stability in Asia and across the emerging market economies. And they have made clear that they understand the contribution that China can make to that outcome:

- Through China's involvement in the Manila Framework Group for better managing financial crises, founded by finance ministry and central bank officials from key Asian economies in November 1997.

- Through its support for multilateral emergency financing packages for the Asian crisis economies.

- And, especially, through keeping China's own exchange rate stable at a time of crisis. China's commitment to maintaining a stable renminbi served it well during this period - and it well served the interests of the Asia-Pacific as a whole.

China's role in helping to build a more stable global financial system has now been further recognized in its inclusion in the G20. This new permanent informal mechanism for dialogue on economic and financial issues among officials from the G7 and key emerging market economies will meet for the first time later this year. We hope and expect that China will be an active participant.

IV. The United States and China

There is little doubt that a constructive bilateral relationship between the United States and China will be critical to the shape and prosperity of the 21st century global economy. China will choose its own destiny. But by working with China as it reforms, by expanding our areas of cooperation and by dealing forthrightly with our differences - in all of these ways we can advance fundamental American interests and values.

Principled and successful United States engagement with China in the years ahead will involve a wide range of concerns that are not strictly economic: from combating global warming and nuclear proliferation, to global aviation regulation, to expanding our people-to-people ties.

For our part the Treasury Department will be working, at the upcoming JEC and in other fora to strengthen our cooperation on international law enforcement issues such as money laundering, and we will also be continuing to call on China to observe the terms of the Memorandum of Understanding and Statement of Cooperation on prison labor.

Beyond these issues, what will be most important for China's economic future will be the approach we adopt toward the closer integration of China with the global trading system.

Many see a rising economy with millions of poor people within its borders as a threat to American economic interests. And starting from this perspective, they worry about the implications of such a country becoming more integrated with our own markets. This Administration - and all of those who have supported, on a bipartisan basis, China's closer integration with the world trading system for well over a decade - perceive it rather differently.

Of course, it is important to ensure in our relations with China that our commercial interests are protected. But to seek to contain China economically - to keep it poor and to isolate it from our markets - is to see our long-term core interests precisely backwards.

The truth is that an open and prosperous China will best promote our national commercial interests - and it will best promote our broader national economic and security interests:

- It will open an enormous export market to our producers and our farmers. Even the limited opening that has already occurred has quadrupled our exports to China in the past decade, to the point where an estimated 400,000 American jobs now depend on them.

- It will support faster growth in productivity and wages in China – and thus faster real living standards and higher demand for our products in the future.

- And, as I have described, it will provide a catalyst for broad economic and institutional change that could help China in the 21st century become the open, stable and prosperous observer of global norms that we would all like to see.

The United States' stake in a more open Chinese economy underpins our bilateral and multilateral trade policy toward China. But look closely at the various market access and intellectual property right agreements we have negotiated with China in recent years and you will see that they rest on broader international standards – such as transparency, fair contract enforcement procedures and checks on arbitrary government action.

That is why, in the long run, we believe that the best framework for our trade relations with China would be the market-oriented and rules-based system of the World Trade Organization. The WTO provides a tested means to reduce trade barriers on a reciprocal basis, to prevent unfair trade practices, and to enforce commitments on open and fair trade.

For all of these reasons, the Administration remains committed to China's accession to the WTO on strong, commercially meaningful terms. But the prospects for reaching an agreement will depend largely on the Chinese and their willingness to address our priority concerns, including in the area of financial services. We will not conclude these negotiations until China's commitments are very clear, and the interests of American producers are adequately safeguarded from sudden market shifts.

To be sure, a World Trade Organization cannot fully live up to the founders' intent while it excludes a country that is home for one fifth of mankind. Nor can it do so by including countries that have not firmly committed to its basic principles: commercial reciprocity and respect for international law.

III. Conclusion

China has been a major power in the world for five thousand years. When George Washington became President it produced one third of the world's output and was home to around one sixth of the world population. As the tragedies of the past 100 years have made clear, it is subject to convulsive and sudden change. But surely the right policy for us is a consistent policy of giving strength to favorable trends where they are under way in China, while at the same time as assuring that we protect our deepest interests and values.

History will judge whether both countries rose to the challenges this new era presents and worked to lay the foundation for unprecedented regional and global security and prosperity – or whether we let that potential go to waste. We are not guaranteed to succeed. But we will certainly reduce the chances for success if we fail to forge a constructive path with China and support its closer integration in the world system.

This is what the meetings among President Clinton, President Jiang and Premier Zhu in the past few years have been about. And it will very much be the spirit of the twelfth JEC in Beijing on October 25^{th}. Thank you.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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Weekly Release of U.S. Reserve Assets

October 12, 1999

The Treasury Department today released U.S. reserve assets data for the week ending October 8, 1999.

As this table indicates, U.S. reserve assets totaled $73,226 million as of October 8, 1999, as compared to $73,039 million as of October 1, 1999.

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

1999 *Week Ending*	Total Reserve Assets	Gold Stock 1/	Special Drawing Rights 2/	Foreign Currencies 3/ ESF	Foreign Currencies 3/ SOMA	Reserve Position in IMF 2/
October 1, 1999	**73,039**	11,046	10,284	15,857	15,860	19,993
October 8, 1999	**73,226**	11,046	*10,250*	16,000	16,003	*19,927*

1/ Gold stock is valued monthly at $42.2222 per fine troy ounce. Values shown are as of August 31, 1999. The July 31, 1999 value was $11,048 million.

2/ SDR holdings and the reserve position in the IMF are based on IMF data and valued in dollar terms at the official SDR/dollar exchange rate. Consistent with current reporting practices, IMF data for October 1, 1999 are final. Data for SDR holdings and the reserve position in the IMF shown as of October 8, 1999 (in italics) reflect preliminary adjustments by the Treasury to the October 1, 1999 IMF data.

3/ Includes holdings of the Treasury's Exchange Stabilization Fund (ESF) and the Federal Reserve's System Open Market Account (SOMA). These holdings are valued at current market exchange rates or, where appropriate, at such other rates as may be agreed upon by the parties to the transactions.

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DEPARTMENT OF THE TREASURY

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FOR IMMEDIATE RELEASE
October 12, 1999

Contact: John Longbrake
(202) 622-2960

SECRETARY SUMMERS TO LEAD U.S. DELEGATION TO CHINA

The Treasury Department announced Tuesday that Secretary Lawrence H. Summers will lead the U.S. delegation at the China-United States Joint Economic Committee meeting on Oct. 25 in Beijing, China.

This 12th JEC meeting will focus on the economic policy and financial issues facing China and the United States in the months ahead as well as enforcement issues and international trade. The last meeting was held May 1998 in Washington, D.C.

"Our capacity to forge a constructive path with China and to support its closer integration into the world economy will be fundamental to how we deal with the strategic and economic challenges of this new era," Secretary Summers said.

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FOR IMMEDIATE RELEASE
October 12, 1999

STATEMENT BY TREASURY SECRETARY LAWRENCE H. SUMMERS
ON FINANCIAL MODERNIZATION

The Administration is disappointed by the recommendations on the Financial Modernization bill put forth by Chairmen Gramm, Leach and Bliley today. A flawed process risks producing flawed legislation. In important respects, the Chairmen's proposal abandons the bipartisan consensus that the House legislation achieved. On each of the four key areas cited by the President -- business choice, the Community Reinvestment Act, consumer protections, and banking and commerce-- the recommendations are inadequate. If the bill were presented to the President in its current form, the President would veto the bill.

The right financial modernization legislation can make an important contribution to the strength of our economy. We remain willing to work cooperatively toward a bill that meets the President's requirements.

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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
October 12, 1999

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Term:	91-Day Bill
Issue Date:	October 14, 1999
Maturity Date:	January 13, 2000
CUSIP Number:	912795DC2

High Rate: 4.780% Investment Rate 1/: 4.918% Price: 98.792

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 28%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 21,188,071	$ 7,525,071
Noncompetitive	1,347,906	1,347,906
PUBLIC SUBTOTAL	22,535,977	8,872,977 2/
Foreign Official Refunded	150,000	150,000
SUBTOTAL	22,685,977	9,022,977
Federal Reserve	4,761,860	4,761,860
Foreign Official Add-On	0	0
TOTAL	$ 27,447,837	$ 13,784,837

Median rate 4.760%: 50% of the amount of accepted competitive tenders as tendered at or below that rate. Low rate 4.670%: 5% of the amount f accepted competitive tenders was tendered at or below that rate.

id-to-Cover Ratio = 22,535,977 / 8,872,977 = 2.54

' Equivalent coupon-issue yield.
' Awards to TREASURY DIRECT = $1,014,741,000

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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
October 12, 1999

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Term:	182-Day Bill
Issue Date:	October 14, 1999
Maturity Date:	April 13, 2000
CUSIP Number:	912795DR9

High Rate: 4.930% Investment Rate 1/: 5.139% Price: 97.508

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 19%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 20,022,760	$ 4,037,010
Noncompetitive	1,157,486	1,157,486
PUBLIC SUBTOTAL	21,180,246	5,194,496 2/
Foreign Official Refunded	2,811,000	2,811,000
SUBTOTAL	23,991,246	8,005,496
Federal Reserve	3,960,000	3,960,000
Foreign Official Add-On	0	0
TOTAL	$ 27,951,246	$ 11,965,496

Median rate 4.900%: 50% of the amount of accepted competitive tenders as tendered at or below that rate. Low rate 4.820%: 5% of the amount f accepted competitive tenders was tendered at or below that rate.

id-to-Cover Ratio = 21,180,246 / 5,194,496 = 4.08

/ Equivalent coupon-issue yield.
/ Awards to TREASURY DIRECT = $841,467,000

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DEPARTMENT OF THE TREASURY

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FOR IMMEDIATE RELEASE
Text as Prepared for Delivery
October 13, 1999

"GENERATING ECONOMIC OPPORTUNITY FOR ALL AMERICANS"
TREASURY SECRETARY LAWRENCE H. SUMMERS
REMARKS TO THE ENTERPRISE FOUNDATION'S ANNUAL ENTERPRISE NETWORK CONFERENCE
ARLINGTON, VA

Let me start by thanking Bart Harvey for that kind introduction, and for inviting me to speak with you today. It is gratifying to see the mission that Jim and Patty Rouse started 18 years ago – to bring people up and out of poverty and into the mainstream of American life – continuing to be realized through the work of the Enterprise Foundation and the dedicated group of community leaders assembled in this audience.

I want to talk today about one of the primary missions that Secretary Rubin set for the Treasury Department, and one that I'm proud to carry on: working to develop a financial system that benefits all Americans.

We come together at a time of remarkable prosperity in our country:

- with unemployment and inflation at or near their lowest levels in a generation;
- with productivity and wage growth higher than any could have expected just a few years ago;
- at a time when we are enjoying budget surpluses for the first time in 30 years;
- and at a time when the federal government is paying down debt and opening up room for investment, rather than running huge deficits and crowding out investment.

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The progress we have made in the last six and a half years has made available nearly $2 trillion for investment in our economy.

A time of great economic strength is a time to plan for the future. It is a time to strengthen America's role in the world and, most important, it is a time to work to include every American in our prosperity.

Indeed, including ever American in our nation's prosperity is central to all of our objectives: it best prepares us for a future when we will need the efforts of every American. And it strengthens the power of our national example at a time when, more than ever before, the world is looking toward America.

The strength of our economy comes in significant part from the strength of our financial system. Think about it: Some Americans want to save for their retirement, or for their children's education. Others seek attractive returns by investing in new technologies or new infrastructure. It is the financial system that brings them together – and that has done so with unprecedented success in recent years, forcing productivity and efficiency enhancements as capital is reallocated out of traditional large ventures and into the companies of tomorrow.

But just as the right kind of financial system can be a powerful spur to economic growth, it can also be a powerful spur to inclusion – the inclusion of all Americans in the prosperity that we are seeking to create. And that is my topic today.

The First Lady has said that it takes a village to raise a child. At Treasury, we like to say that it takes capital to build a village. For if we have learned anything in recent years about the challenge of helping those who are least fortunate, it is this: Traditional solutions, based on simply providing income and assuming that opportunities will appear as a result, do not bring enduring success. But equally, a government that abandons those who are least fortunate abdicates its economic, as well as its moral, responsibility.

That is why we are working so hard on developing new approaches based on the principle of creating opportunity for all. And that is where the financial system comes in so critically.

Two primary financial priorities stand out. First, expanding access to capital. And second, ensuring that all Americans have access to financial services.

I. Expanding Access To Capital

It is essential that every part of the country, that every area, that every type of business that could earn a fair return have an opportunity to be funded. That, to use economic jargon for just a second, there be a strong supply and a robust effective demand for capital in the places where many Americans have in the past been left behind. This may once just have been an issue of morality or justice. But at time when, in addition to having people look for jobs, we face the issue in America of jobs looking for people, it is an especially acute imperative.

What are we doing about it? The most important things we are doing about it are:

- keeping our economy strong;
- paying down the government's debt;
- generating opportunities for investment;
- and creating an environment where barriers to market access are low and capital is readily available and seeking profitable opportunities.

But we have to do more than just create the right kind of economic environment. For many years, it has been a priority at Treasury to promote economic growth and opportunity in emerging markets around the world because of what it can mean for the people in these nations. What we've come to realize more recently, and what the President highlighted on his New Markets tour in July - which I think will be one of most remembered weeks of his Presidency - is that the most important emerging markets are those within our borders.

In my first week as Treasury Secretary, I visited Harlem, USA, a major retail and entertainment center being developed in New York. There, I saw clearly the power of cooperation between the public and private sectors. Prior to this project, Harlem, an area with a population the size of Cincinnati, had not seen any retail development in 50 years. This effort, brought together under the auspices of many projects, including the Community Reinvestment Act, is bringing major retailers to an area that has neither shopping mall nor even - until recently - a major supermarket.

Are there public benefits to this project or should it have been left only to the market? Think about this: Tax collection to New York City will pay back the public investment in Harlem, USA in just 9 months. And land values in the area have increased 5- to 10-fold.

Our most important vehicle for creating such opportunities across the country is the Community Reinvestment Act. CRA resulted in more than $88 billion in community lending last year. Many bankers have described how the investments they first made because of CRA obligations have pointed the way toward new and profitable business opportunities.

We are now engaged in a debate over financial modernization. Unfortunately, some would, at this moment of opportunity and economic success, seek to scale back CRA or erode its relevance. The President has made very clear that at a time of such economic strength, he would like to see the repeal of archaic rules governing our financial system, but he will not sign into law any bill that scales back CRA.

To finance potential profit-making ventures in areas that most lenders might still overlook, Treasury's Community Development Financial Institutions Fund provides capital for investment opportunities in underdeveloped areas. CDFIs not only spur economic development, they also offer conclusive evidence to private sector investors of the broader range of opportunities available to them in disadvantaged regions. Since its first round of funding in 1996, the CDFI Fund has provided over $200 million to local financial institutions, a sum that has been leveraged many times over in the investments it has generated.

As important as it is to ensure that financing is available in our disadvantaged communities, it is also critical that there be effective demand for funds in these areas. That is why the President's New Markets Initiative is seeking to create opportunities to tap into the almost $695 billion in purchasing power that a recent survey found exists in America's inner cities and rural areas. And that is why BusinessLINC, an Administration initiative led by Vice President Gore, is helping small businesses partner with large companies to gain advice and technical know-how through mentoring relationships and develop potential business relationships.

II. Improving the Availability of Financial Services

Our second priority is making access to high quality financial services universal. It was an important national challenge half a century ago to ensure that essentially every American had access to electricity, to running water, and to a telephone.

In the modern world, access to a basic bank account takes on a profound importance. Here in this age of the Internet, derivatives, and embedded options, between 10 and 20 percent of American households still do not have any type of transaction account - checking or savings. One new survey in Chicago finds that 44 percent of recipients of the Earned Income Tax Credit used a check cashing service to cash their EITC refund check. Moreover, estimates suggest that the costs over a lifetime for low- and middle-income families of paying fees for each check that they cash and for every bill that they pay could exceed $15,000.

Access to banking in society today means access to the modern economy. One recent study found that, controlling for income, wealth, age and other factors, individuals without a bank account are 43 percent less likely to have positive net financial assets and 13 percent less likely to own a home.

The problem of the unbanked is widespread and, as figures suggest, is of critical concern. As with the spread of electricity or telephone service, it is a problem best addressed through the right kind of cooperation between the public and private sectors.

Let me tell you about some of the things that we are working on to address this issue.

The federal government recognized in 1996 that we could save money, prevent crime, and help beneficiaries through the Electronic Funds Transfer program. EFT '99, as the program is known, will save the government $100 million and will prevent $100 million in crime.

But it will not work for those who do not have a bank account. That is why Treasury is contracting with financial institutions to offer Electronic Transfer Accounts or ETAs - low-cost electronic accounts that would essentially allow federal benefit recipients to "direct deposit" their benefits in a bank account. Participants are guaranteed a low-cost account - which in some cases will pay interest on balances - with the start-up costs subsidized by the government. We have been pleased with banks' response to the program thus far. Since the announcement of the program in July, over 175 insured financial institutions have indicated their interest in offering the account.

This clearly represents progress. But it is not enough, since millions of the unbanked are not recipients of federal checks. All of us need to bring the same kind of innovative spirit that has brought such changes in our financial landscape to the important question of how Americans can get their checks cashed without being subjected to interest rates that too often can be measured in hundreds of percent.

One area that we are now exploring is helping the Postal Service provide access to ATMs at post offices in low-income neighborhoods. Given the presence of Post Offices in almost every community in this nation, this program holds considerable promise in increasing access to financial services in neighborhoods that have been left behind by mainstream financial institutions.

But basic banking services go beyond the chance to cash a check - to the accumulation of savings. It is only through savings that people can protect themselves against the vicissitudes of economic life.

Tens of millions of dollars are spent in this country to help the higher-income Americans who do save. We need to extend these same opportunities to those in this country who may not have ready access to a 401(k). That is why, as a second way of promoting access to financial services, the Administration continues to support funding of Individual Development Accounts. The lower-income Americans who participate in IDA programs set up a savings account at a mainstream financial institution, receive matching funds for their contributions, and take part in financial education programs.

here is a third component of access to financial services: access to personal credit. The opportunity for personal credit must be open to all Americans. One of our less heralded achievements is the progress that our nation's fair lending laws have made in improving the accessibility of lending to minorities and low-income Americans. These opportunities should be available to all those who are willing and able to pay for them. But this opportunity will be lost if we fail to vigorously enforce our fair lending laws. That is why we are strongly committed to that goal.

III. Concluding Remarks

I have talked today about some of the steps that we at Treasury and in government are taking to address the financial aspects of the challenges of including every American in our nation's prosperity and empowering every community in its ability to thrive. But ultimately, the lesson of America is that prosperity and strength do not trickle down. They bubble up. That is why the work that all of you are engaged in is so very important. Thank you.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED UNTIL 3 PM EDT
Text as Prepared for Delivery
October 14, 1999

"GLOBALIZATION THAT WORKS FOR PEOPLE"
TREASURY SECRETARY LAWRENCE H. SUMMERS
REMARKS TO THE DEMOCRATIC LEADERSHIP ANNUAL CONFERENCE
WASHINGTON, D.C.

The United States is the world's largest, richest and strongest economy. If leadership in building a truly global trading system is going to come, it is likely to have to come from our country. And now, when our economy stands so strong, is a propitious time for action. Yet even at this time of unprecedented economic strength, the questions of what our trade policy ought to be – and our approach to global integration more generally – continue to be difficult and vexing ones for our country.

I would like today to share some reflections on four aspects of this debate that I think do not always receive the emphasis they deserve.

- First, the political and national security case for America's open markets policy.
- Second, the direct economic case for open markets in terms of the living standards of the American people.
- Third, the difficult question of how to make sure that integration works for people.
- Fourth, the political challenge of maintaining support for global integration in our country.

I. The Political and Strategic Case for Support for Open Markets

The crucial link between closer economic integration and our national security is this: we are much less likely as a nation to be drawn into conflict if nations of the world are strong, and are forging ever closer connections, than if they are financially unstable and disconnected. In short, trade promotes prosperity and by promoting prosperity, promotes peace.

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Fifty years ago, in the wake of World War II, the primary concern the world faced was the economic reconstruction of war-ravaged Europe and Japan. A generation of visionary leaders responded by supporting a successful strategy of rapid economic rebuilding as essential to normalization and prosperity, and increased economic integration, so people stood more to gain from shared peace than from divisive conflict.

Today, the challenge is to integrate the 5 billion people of the developing world – hundreds of millions of who are now glimpsing the benefits that a global economy can offer – into a strong and truly global market system. And our answer to that challenge should be the same as it has been since 1945. By supporting liberalization in these countries we invest in our future security and we invest in the spread of our core values.

Examples such as Korea, Taiwan and Argentina illustrate that economic development tends to bring democratization in its wake. And there is no better way to spur this process than by integrating them into the global marketplace.

Let these countries trade in today's global economy and you provide one of the strongest catalysts for reforms that promote our deepest interests. In a 21st century global economy, competition and integration will make them more market-based; more protective of personal and commercial freedoms, more open to the free flow of information and ideas; and ultimately, less prone to conflict with other nations.

Trade, then, is the pursuit of peace by other means. But we should never forget that it is also the pursuit of higher living standards for Americans. To put it bluntly: even if closer integration did not help to make America a safer nation, we would still want to support it because it helps make us a more prosperous one.

II. The Economic Case for Open Markets

Let me now suggest a more academic way of thinking about the economic case for trade that is a little different than usual. Imagine there was a country whose ports were all filled with rocks – to be sure, a very special kind of rocks – that blocked all incoming ships but not outgoing ones. Ask yourselves, if those rocks could be removed at no cost, would that be a good thing for that country?

Many people would say that it would be a good thing:

- It would provide citizens with a wider choice of consumer goods, at lower prices.
- It would provide producers with a wider choice of inputs, and lower costs, making them more competitive and able to hire more workers and raise their wages.
- It would provide more competition as a spur to productivity and new ideas – and as a result, lower inflation and lower costs of capital.

To be sure, the removal of those rocks would bring about change in the economy. But looking around, we can see that every day and in every way our market economy – by bringing about improvements in technology, communications and transportation – is bringing down natural barriers and making communication and trade much easier.

This, too, brings enormous changes as well as benefits in its wake. Indeed, nearly all the academic evidence in this area suggests that technological change has had a much larger impact on workers than increased trade – and that trade liberalization has tended to raise the wages of skilled workers rather that reduce the wages of the unskilled. Shutting ourselves off from the new global economy would not help these people - any more than it would help them for us to turn our back on new technologies.

The question is whether we should respond differently to man-made barriers to trade than we do to those natural barriers that new technologies are now eroding. And should our response be any different if other countries have bigger rocks in their harbors? Would that be a reason to keep the rocks piled high in our own?

The success of the United States in the 1990s is a testament to the benefits that openness can bring:

- Exports have created millions of new jobs – jobs that on average pay 13 to 16 percent above the average wage.

- And our openness to imports has fueled competition and innovation and helped to sustain our growth with almost no inflation and long-term interest rates that even now, after 8.5 years of expansion, are around 2 percentage points lower than they were at its start.

But actually I have so far understated the case for open markets, because no one is suggesting that the United States unilaterally lower our own trade barriers without reciprocal steps by others. What is at issue – in the debates we have had about ratifying the Uruguay Round of the General Agreement on Tariffs and Trade and Fast Track, or that we will have about the new round of negotiations within the World Trade Organization – is whether we should be involved in a broad project of removing the rocks from our harbors and from other countries' harbors.

It bears emphasis that this is not even a symmetrical debate – since we already have by far the lowest trade barriers in the world. If we look at the trade agreements we have negotiated in recent years, the reductions in our own trade barriers are a fraction of the reductions that other signatories have undertaken.

To take just one example: in 1993, United States goods faced an average tariff at the Mexican border of about 10 percent, around 2 and a half times greater than United States tariff on Mexican goods. Thanks to NAFTA, as of July 1999, Mexico's average tariff has already fallen to about 2 percent. Indeed, two-thirds of U.S. exports to Mexico now enter duty-free. Overall, our exports to our NAFTA partners grew by more than two-thirds, or $93 billion, in the five years after the agreement was signed.

Looking forward, the gains from future trade liberalization could only be greater, at a time when the major Latin American and Asian economies with whom we are most likely to negotiate new trade agreements have average tariff rates three times higher than our own.

Considering the question this way, the inescapable conclusion is that the pursuit of further trade liberalization around the world is not merely good economics – but good mercantilism. Of course, it is important to ensure in our bilateral and multilateral trade negotiations that our commercial interests are protected, and that our trade laws are vigorously enforced. But to seek to keep our harbors closed off to foreign competition is to see our long-term core interests precisely backwards.

No country has a greater commercial and broader economic stake in encouraging ever-closer global economic integration. Because of the diversity of our population and the centrality of our location, our ties to any given region in the world are stronger than its ties to any other region. And time and again, when developing countries reduce their trade barriers they grow faster, their wages rise – and their demand for sophisticated American products grows with them.

III. Making Integration Work for People

At the same time, we all have to recognize that trade and integration will not work for America unless it works for every American. To a degree that historians have perhaps under-emphasized, 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.

The lesson of that time is very clear: internationalism cannot be a goal pursued by the elite for its own sake. We need to find ways make real and more apparent to Americans the strong link between security and prosperity abroad – and the security and prosperity of every American.

As the President has said, "working people will only assume the risks of a free international market if they have the confidence that the system will work for them." As we move to more truly global and integrated economy, and as capital becomes so much more mobile than labor there are legitimate concerns that companies will exploit that greater mobility by playing off competing jurisdictions against one an other. The fear is that we will find ourselves in a race to the bottom – a bottom in which governments cannot promote fair taxes, uphold fair labor standards, protect the environment or promote other key American values.

That is not the world we want to build. And it not the world that we are building. Just as national regulations and standards evolved in the United States in the last century in response to the consequences of inter-state competition – so international agreements and institutions will be needed to provide an enduring basis for integration at the international level. As the President has said: "a legal framework of mutual responsibility and social safety is not destructive to the market; it is essential to its success."

- That is why we are working with other countries to promote global cooperation against corporate and legal tax havens and we are working actively in the OECD on the issue of tax competition.

- That is why I think that the WTO should commit to collaborating more closely with the International Labor Organization, which has worked so hard to protect human rights and to ban abusive child labor.

- And that is why, among other things, at the WTO ministerial in Seattle we will be calling for the creation of a WTO Working Group on Trade and Living Standards and a thorough review of the environmental impact of the Seattle round.

If we are there working with developing countries, to achieve strong agreements which open global markets to them and to us, we can simultaneously promote labor and environmental priorities and other issues that are important to us. What is more, we can offer their workers the most reliable route to higher wages, namely access to global markets and expertise. Without our involvement, neither outcome can be guaranteed.

Let me just add that however these issues play out in context of our broad trade relations, the richest nation on earth can surely afford to open its markets in a limited way to countries in Sub-Saharan Africa and the Caribbean whose per capita income is a fraction of our own. The African Growth and Opportunity Act and the enhanced Caribbean Basin Initiative each represent modest but important steps toward expanding our partnership with these countries – and promoting the broad economic reform and accelerated growth that they desperately need. These are not steps that a nearly nine trillion dollar economy should find it difficult to make.

IV. The Challenge of Maintaining Support for Outward-Looking Policies in the United States

These and the other broader arguments for open markets should not be difficult to make. But increasingly, they are. I have tried to reflect on why that should be so: why, when the security benefits are so compelling and the economic benefits so clear, it so difficult to make the case for open trade and broader economic integration in America today.

Three reasons stand out.

The first is the natural human tendency to internalize the good news and externalize the bad. How many people working hard at a badly managed firm, with out-dated technology, pin the blame for their layoff on foreign competition? How many people, when offered a raise or promotion in a labor-short industry following a surge of export demand, assign the credit to open international markets, rather than considering it to be a deserved reward to their own skill?

The second reason is that the United States is a large country that has traditionally looked inward. Historians have written at length of our oscillations between isolationism and global engagement. In the 1920s and early 1930s we swung, disastrously, in the first direction. In the post-war period we moved decisively toward support for integration.

Today the motivating force of the Communist threat has evaporated, and been replaced by the less salient but no less real threat of foreign economic storms blowing onto our shores. And international economic policy has become more subject to popular influences. I doubt that anyone focus-grouped the Marshall Plan; or that it would have fared well if they had.

The third reason is that trade tends to become the lens upon which all kinds of concerns about a changing world are projected. If Americans are to be able to support and feel comfortable with change, we need to equip workers with the education and skills to manage the transition process and seize the opportunities that come with it.

In the end, a globally integrated America that leaves large chunks of its people behind will not travel far. As we move from an industrial to an information age – pregnant with possibility but also full of new challenges for ordinary people – a progressive agenda that seeks to widen the circle of opportunity and prepare people for a global economy is as important as it has ever been.

V. Conclusion

If we are literal about the definitions and define the current century as ending on January 1, 2001, there is much about the 21st century that this century will still shape. The decisions that we and others make on crucial issues of the world trading system:

- About whether the United States, which has aided Africa and the Caribbean for so long, will pursue policies that recognize that trade, not aid, it the best way to help these countries prosper;
- Whether China, the home to one fifth of mankind, will carve its place in a open and rule-based global trading system;
- Whether we will find the momentum on key regional trade initiatives in Latin America and Asia;
- And above all, about whether the global trading system will continue moving forward, at the Seattle meeting and beyond.

The decisions that we and others make on these and other questions will in a very real sense set the frontiers of global economic advancement for many years to come. The President has called it "the challenge of the millennial generation...to create a world trading system, attuned both to the pace and scope of a new global economy and to the enduring values which give direction and meaning to our lives." America has an enormous stake in helping to build such a global system in the months ahead – and a great deal to lose if we take now as the time to turn our backs.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED UNTIL 2:30 P.M.
October 14, 1999

CONTACT: Office of Financing
202/691-3550

TREASURY OFFERS 13-WEEK AND 26-WEEK BILLS

The Treasury will auction two series of Treasury bills totaling approximately $17,000 million to refund $15,029 million of publicly held securities maturing October 21, 1999, and to raise about $1,971 million of new cash.

In addition to the public holdings, Federal Reserve Banks for their own accounts hold $7,416 million of the maturing bills, which may be refunded at the highest discount rate of accepted competitive tenders. Amounts issued to these accounts will be in addition to the offering amount.

The maturing bills held by the public include $3,139 million held by Federal Reserve Banks as agents for foreign and international monetary authorities, which may be refunded within the offering amount at the highest 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.

TreasuryDirect customers requested that we reinvest their maturing holdings of approximately $806 million into the 13-week bill and $619 million into the 26-week bill.

This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular for the Sale and Issue of Marketable Book-Entry Treasury Bills, Notes, and Bonds (31 CFR Part 356, as amended).

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

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Attachment

LS-155

HIGHLIGHTS OF TREASURY OFFERINGS OF BILLS
TO BE ISSUED OCTOBER 21, 1999

October 14, 1999

Offering Amount	$9,000 million	$8,000 million
Description of Offering:		
Term and type of security	91-day bill	182-day bill
CUSIP number	912795 DD 0	912795 DS 7
Auction date	October 18, 1999	October 18, 1999
Issue date	October 21, 1999	October 21, 1999
Maturity date	January 20, 2000	April 20, 2000
Original issue date	July 22, 1999	October 21, 1999
Currently outstanding	$11,650 million	---
Minimum bid amount and 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 highest 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 Rate .... 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: By charge to a funds account at a Federal Reserve Bank on issue date, or payment of full par amount with tender. *TreasuryDirect* customers can use the Pay Direct feature which authorizes a charge to their account of record at their financial institution on issue date.

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FOR IMMEDIATE RELEASE
October 15, 1999

Contact: Una Gallagher, Treasury
(202) 622-0631
Dawn Haley, BEP
(202) 874-3545

SECRETARY SUMMERS VIEWS SERIES 1999 DOLLAR BILLS

Treasury Secretary Lawrence H. Summers and Treasurer Mary Ellen Withrow will speak to elementary school students, view the new Series 1999 dollar bills and tour the printing facilities at 11:45 a.m. Tuesday, October 19 at the Bureau of Engraving and Printing, 14th and C Streets, NW.

The Series 1999 one-dollar bills will feature Secretary Summers' signature and will be in circulation in the next few weeks.

Fifth Grade students from Glencarlyn Elementary School in Arlington, Virginia, will tour the facility with the Secretary and Treasurer.

Media interested in attending should call (202) 874-3545 by 6 p.m. Monday, October 18 with name and news organization for clearance into the building. All media should enter through the 15th Street entrance. Cameras may pre-set at 10:30 a.m.

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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
October 13, 1999

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 52-WEEK BILLS

Term:	364-Day Bill
Issue Date:	October 14, 1999
Maturity Date:	October 12, 2000
CUSIP Number:	912795EG2

High Rate: 5.115% Investment Rate 1/: 5.411% Price: 94.828

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 10%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 21,602,330	$ 8,134,740
Noncompetitive	791,337	791,337
PUBLIC SUBTOTAL	22,393,667	8,926,077 2/
Foreign Official Refunded	1,075,000	1,075,000
SUBTOTAL	23,468,667	10,001,077
Federal Reserve	4,950,000	4,950,000
Foreign Official Add-On	1,783,000	1,783,000
TOTAL	$ 30,201,667	$ 16,734,077

Median rate 5.095%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 5.000%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 22,393,667 / 8,926,077 = 2.51

1/ Equivalent coupon-issue yield.
2/ Awards to TREASURY DIRECT = $575,185,000

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DEPARTMENT OF THE TREASURY

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FOR IMMEDIATE RELEASE
October 18, 1999

Contact: Steve Posner
(202) 622-2960

TREASURY ANNOUNCES EXPANSION OF COMMUNITY INVESTMENT PROGRAM

The Treasury Department announced on Monday that the Community Adjustment and Investment Program (CAIP), an affiliate of the North American Development Bank (NADBank), has launched a new grant and technical assistance program and has expanded the areas eligible for CAIP assistance.

In an effort to better serve individual communities, the CAIP is now soliciting applications for direct grants and technical assistance for specific projects, with up to $6 million available on a competitive basis to fund grants in eligible areas. The deadline for submitting grant applications is January 17, 2000. Awards will be announced this spring. Eligible applicants are 501(c)(3) and 501(c)(4) non-profit organizations, public and private institutions of higher education, state and local political agencies and subdivisions, and Indian tribal governments.

By adopting broader and more flexible eligibility requirements, the CAIP has also achieved a 62 percent increase in the number of counties qualified to apply for CAIP loans, loan guarantees, grants and technical assistance. CAIP assistance is now available to 207 counties located in 30 states and the Commonwealth of Puerto Rico.

The CAIP, as a domestic program affiliated with the NADBank, encourages and fosters economic opportunities within communities that have experienced temporary job displacements related to implementation of the North American Free Trade Agreement. To date, the program has facilitated more than $204 million in loans and loan guarantees in 26 states, helping to create or retain more than 6,600 jobs.

The NADBank is an international financial institution jointly capitalized and governed by the United States and Mexico to finance environmental infrastructure projects along the U.S./Mexico border.

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

FOR IMMEDIATE RELEASE
October 19, 1999

Contact: Office of Financing
(202) 691-3550

TREASURY'S INFLATION-INDEXED SECURITIES
NOVEMBER 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 November 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, (4) the 3-5/8% 30-year bonds due April 15, 2028, (5) the 3-7/8% 10-year notes due January 15, 2009, and (6) the 3-7/8% 30-year bonds due April 15, 2029. 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 159. The information is also available on the Internet at Public Debt's website (http://www.publicdebt.treas.gov).

The information for December is expected to be released on November 17, 1999.

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Attachment

PA-426

LS-159

TREASURY INFLATION-INDEXED SECURITIES
Ref CPI and Index Ratios for
November 1999

Security: Description: CUSIP Number: Dated Date: Original Issue Date: Additional Issue Date: Maturity Date: Ref CPI on Dated Date:		3-7/8% 10-Year Notes Series A-2009 9128274Y5 January 15, 1999 January 15, 1999 July 15, 1999 January 15, 2009 164.00000	3-7/8% 30-Year Bonds Bonds of April 2029 912810FH6 April 15, 1999 April 15, 1999 October 15, 1999 April 15, 2029 164.39333		
Date	Ref CPI	Index Ratio	Index Ratio		
Nov. 1 1999	167.10000	1.01890	1.01646		
Nov. 2 1999	167.12667	1.01907	1.01663		
Nov. 3 1999	167.15333	1.01923	1.01679		
Nov. 4 1999	167.18000	1.01939	1.01695		
Nov. 5 1999	167.20667	1.01955	1.01711		
Nov. 6 1999	167.23333	1.01972	1.01728		
Nov. 7 1999	167.26000	1.01988	1.01744		
Nov. 8 1999	167.28667	1.02004	1.01760		
Nov. 9 1999	167.31333	1.02020	1.01776		
Nov. 10 1999	167.34000	1.02037	1.01792		
Nov. 11 1999	167.36667	1.02053	1.01809		
Nov. 12 1999	167.39333	1.02069	1.01825		
Nov. 13 1999	167.42000	1.02085	1.01841		
Nov. 14 1999	167.44667	1.02102	1.01857		
Nov. 15 1999	167.47333	1.02118	1.01874		
Nov. 16 1999	167.50000	1.02134	1.01890		
Nov. 17 1999	167.52667	1.02150	1.01906		
Nov. 18 1999	167.55333	1.02167	1.01922		
Nov. 19 1999	167.58000	1.02183	1.01938		
Nov. 20 1999	167.60667	1.02199	1.01955		
Nov. 21 1999	167.63333	1.02215	1.01971		
Nov. 22 1999	167.66000	1.02232	1.01987		
Nov. 23 1999	167.68667	1.02248	1.02003		
Nov. 24 1999	167.71333	1.02264	1.02020		
Nov. 25 1999	167.74000	1.02280	1.02036		
Nov. 26 1999	167.76667	1.02297	1.02052		
Nov. 27 1999	167.79333	1.02313	1.02068		
Nov. 28 1999	167.82000	1.02329	1.02084		
Nov. 29 1999	167.84667	1.02346	1.02101		
Nov. 30 1999	167.87333	1.02362	1.02117		
CPI-U (NSA) for :	July 1999	166.7	August 1999	167.1	September 1999 167.9

TREASURY INFLATION-INDEXED SECURITIES
Ref CPI and Index Ratios for
November 1999

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	October 15, 1998	July 15, 1998
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
Nov. 1 1999	167.10000	1.05469	1.04337	1.03432	1.03314
Nov. 2 1999	167.12667	1.05486	1.04353	1.03449	1.03330
Nov. 3 1999	167.15333	1.05502	1.04370	1.03465	1.03347
Nov. 4 1999	167.18000	1.05519	1.04386	1.03482	1.03363
Nov. 5 1999	167.20667	1.05536	1.04403	1.03498	1.03380
Nov. 6 1999	167.23333	1.05553	1.04420	1.03515	1.03396
Nov. 7 1999	167.26000	1.05570	1.04436	1.03531	1.03413
Nov. 8 1999	167.28667	1.05587	1.04453	1.03548	1.03429
Nov. 9 1999	167.31333	1.05603	1.04470	1.03564	1.03446
Nov. 10 1999	167.34000	1.05620	1.04486	1.03581	1.03462
Nov. 11 1999	167.36667	1.05637	1.04503	1.03597	1.03479
Nov. 12 1999	167.39333	1.05654	1.04520	1.03614	1.03495
Nov. 13 1999	167.42000	1.05671	1.04536	1.03630	1.03512
Nov. 14 1999	167.44667	1.05688	1.04553	1.03647	1.03528
Nov. 15 1999	167.47333	1.05704	1.04570	1.03663	1.03545
Nov. 16 1999	167.50000	1.05721	1.04586	1.03680	1.03561
Nov. 17 1999	167.52667	1.05738	1.04603	1.03696	1.03578
Nov. 18 1999	167.55333	1.05755	1.04620	1.03713	1.03594
Nov. 19 1999	167.58000	1.05772	1.04636	1.03729	1.03611
Nov. 20 1999	167.60667	1.05789	1.04653	1.03746	1.03627
Nov. 21 1999	167.63333	1.05805	1.04670	1.03762	1.03644
Nov. 22 1999	167.66000	1.05822	1.04686	1.03779	1.03660
Nov. 23 1999	167.68667	1.05839	1.04703	1.03796	1.03677
Nov. 24 1999	167.71333	1.05856	1.04719	1.03812	1.03693
Nov. 25 1999	167.74000	1.05873	1.04736	1.03829	1.03710
Nov. 26 1999	167.76667	1.05890	1.04753	1.03845	1.03726
Nov. 27 1999	167.79333	1.05906	1.04769	1.03862	1.03743
Nov. 28 1999	167.82000	1.05923	1.04786	1.03878	1.03759
Nov. 29 1999	167.84667	1.05940	1.04803	1.03895	1.03776
Nov. 30 1999	167.87333	1.05957	1.04819	1.03911	1.03792

CPI-U (NSA) for : July 1999 166.7 August 1999 167.1 September 1999 167.9

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
October 18, 1999

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Term:	91-Day Bill
Issue Date:	October 21, 1999
Maturity Date:	January 20, 2000
CUSIP Number:	912795DD0

High Rate: 4.990% Investment Rate 1/: 5.136% Price: 98.739

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 68%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 24,818,311	$ 7,611,911
Noncompetitive	1,171,505	1,171,505
PUBLIC SUBTOTAL	25,989,816	8,783,416 2/
Foreign Official Refunded	230,559	230,559
SUBTOTAL	26,220,375	9,013,975
Federal Reserve	3,850,500	3,850,500
Foreign Official Add-On	49,441	49,441
TOTAL	$ 30,120,316	$ 12,913,916

Median rate 4.990%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 4.890%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 25,989,816 / 8,783,416 = 2.96

1/ Equivalent coupon-issue yield.
2/ Awards to TREASURY DIRECT = $890,837,000

http://www.publicdebt.treas.gov

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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
October 18, 1999

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Term:	182-Day Bill
Issue Date:	October 21, 1999
Maturity Date:	April 20, 2000
CUSIP Number:	912795DS7

High Rate: 5.000% Investment Rate 1/: 5.216% Price: 97.472

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 39%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 19,286,250	$ 4,147,000
Noncompetitive	958,914	958,914
PUBLIC SUBTOTAL	20,245,164	5,105,914 2/
Foreign Official Refunded	2,902,041	2,902,041
SUBTOTAL	23,147,205	8,007,955
Federal Reserve	3,565,000	3,565,000
Foreign Official Add-On	622,959	622,959
TOTAL	$ 27,335,164	$ 12,195,914

Median rate 4.990%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 4.890%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 20,245,164 / 5,105,914 = 3.97

1/ Equivalent coupon-issue yield.
2/ Awards to TREASURY DIRECT = $684,542,000

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

EMBARGOED UNTIL 9:30 AM
Text as Prepared for Delivery
October 19, 1999

**TREASURY TAX LEGISLATIVE COUNSEL JOSEPH MIKRUT
TESTIMONY BEFORE THE SENATE COMMITTEE ON FINANCE
SUBCOMMITTEE ON LONG-TERM GROWTH AND DEBT REDUCTION**

Mr. Chairman, Ranking Member, and Members of the Subcommittee:

It is a pleasure to speak with you today about the current-law tax provisions that may affect transactions undertaken with respect to the restructuring of the electric power industry.

The Administration supports restructuring of the electric power industry. Deregulation and increased competition, as envisioned by the Administration's Comprehensive Electricity Competition Plan, will encourage more efficient production and delivery of electricity resulting in savings for consumers, a more competitive American economy, and reduced greenhouse gas emissions. Almost all States have either adopted restructuring proposals that allow consumers to choose among competing power suppliers or are considering such proposals. Federal action is necessary, however, if State programs are to realize their full potential.

In April, the Administration delivered the Comprehensive Electricity Competition Plan to Congress. As Secretary Richardson noted when the Plan was delivered, the legislation it proposes will provide the tools needed to ensure that electricity markets operate as competitively and reliably as possible. The Administration estimates that creating a competitive electric industry will save consumers $20 billion per year.

Deputy Secretary Glauthier of the Department of Energy and I are here this morning to discuss the tax initiatives in the Administration's electricity restructuring proposals.

Certain Internal Revenue Code provisions may hinder certain transactions that may be undertaken pursuant to the restructuring of the electric power industry. In general, these provisions were drafted at a time when the electric power industry was subject to rate regulation and electric service generally was supplied by a local provider—whether the provider was a taxable investor-owned utility or a tax-exempt government-owned facility or cooperative. To address these situations, the Administration has proposed changes in the rules governing tax-exempt financing for electric companies owned by a State or local governmental entity, a

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provision that would allow unregulated utilities to make deductible contributions to nuclear decommissioning funds, and tax incentives for investments in distributed power and combined heat and power facilities.

TAX-EXEMPT FINANCING

Current Law

Under current law, interest on debts incurred by State or local governments is excluded from income if the proceeds of the borrowing are used to carry out governmental functions and the debt is repaid with governmental funds. If a bond is nominally issued by a State or local government, but the proceeds are used (directly or indirectly) by a private person and interest payments are derived from the funds of such a private person, interest on the bond is taxable unless the borrowing is for a purpose specifically permitted under the Code and certain other conditions are met.

Facilities for electricity generation, transmission, and distribution may be financed with tax-exempt bonds if the financed facilities are used by and debt service is paid by a State or local governmental entity. A facility can satisfy the governmental use requirement even when the electricity it generates or transmits is sold to private persons so long as those persons are treated as members of the general public. The general public for this purpose may include customers, such as large industrial users, that are charged lower rates than others, such as residential customers, under a reasonable and customary rate schedule. Private use occurs, however, when electricity is sold under terms, such as low-rate, take-or-pay contracts, not available to the general public or when facilities are operated by private persons (other than under certain permitted management contracts) or the benefits and burdens of ownership are otherwise transferred to private persons. Such private use of a facility (including, under the change-in-use rules, private use that begins after an initial period of governmental use) may render the interest on bonds that financed the facility taxable.

Both the Code and Treasury regulations provide certain short term and de minimis exceptions to these general rules. For example, in some cases, up to ten percent of the bond proceeds of an issue may be used for certain private business uses without the entire issuance being treated as a private activity bond. In addition, temporary Treasury regulations issued in 1998 permit bonds outstanding on July 9, 1996 (the date of Federal Energy Regulatory Commission (FERC) action to promote the creation of nondiscriminatory, open-access transmission services) to retain their tax-exempt status when the transmission facilities financed with those bonds are used by private persons in connection with the provision of such open-access services. Those temporary regulations also provide that bonds outstanding on July 9, 1996, may retain their tax-exempt status notwithstanding certain private use of the generation facility financed by the bonds. The private use must occur in connection with the sale of excess capacity resulting from opening the issuer's power system to competition. The regulations further require that the length of the sales contracts cannot exceed three years, that the issuer issue no further tax-exempt bonds to finance increased generation capacity during the term of the contract, and that any stranded costs recovered by such sales be used to redeem outstanding tax-exempt bonds.

The temporary regulations expire in January of 2001, about 14 months from now. We have received useful comments from interested parties regarding these regulations and will soon begin the process of developing permanent regulations. Regulations, however, are incapable of fully addressing the issues raised by restructuring.

Issues Raised by Deregulation and Restructuring

The rules prescribing favorable tax treatment for bonds issued to finance public power facilities were adopted at a time when such facilities generally were operated to serve a limited, local geographic area. The restructuring of the electric power industry may result in situations and transactions that were not contemplated when those rules were adopted, raising issues that require a re-examination of such rules. Specifically, achieving a restructured electricity industry is hampered by the following three issues that arise with respect to the tax-exempt bond rules:

> First, municipal utilities may be reluctant to open up their service territories to competition due to concerns regarding private use of their bond-financed transmission facilities.
>
> Second, some municipal utilities may be unable to compete effectively in a deregulated environment because their bond-financed generation facilities are subject to private-use limitations.
>
> Third, because municipal utilities may finance output facilities on a tax-exempt basis, they have a cost of capital advantage over private, for-profit providers of electricity.

The efficiency and equity of a restructured industry depend on leveling the playing field with respect to capital costs while at the same time ensuring that government-owned facilities are not discouraged from fully participating.

To achieve efficient, nondiscriminatory transmission, it may be necessary to turn the operation of government-owned transmission facilities over to independent regional systems operators or in other ways use those facilities in a manner that may violate the private use rules. As traditional service areas of both investor-owned and government-owned systems are opened to retail competition, the latter may find it necessary to enter into long-term contracts with private users of electricity in order to prevent their generation facilities from becoming stranded costs. Without relief from the change-in-use rules, government-owned systems may be unwilling to open their service areas to competition or allow their transmission facilities to be operated by a private party.

To maintain fair competition between government-owned and investor-owned electric companies in a restructured industry, and to avoid unwarranted indirect federal subsidies in this restructured environment, no new facilities for electric generation or transmission should be financed with tax-exempt bonds. Because electric distribution facilities are inherently local and often commingled with other public services, continued access to tax-exempt financing of such facilities by government-owned electric systems will not distort competitive balance in the industry. Moreover, these distribution facilities will continue to serve customers as members of the general public. Distribution facilities owned by for-profit providers will continue to be subject to rate regulation as natural monopolies. Continued tax-exempt financing of distribution facilities does, however, require a bright-line standard for the distinction between transmission and distribution facilities.

Administration Proposal

The Administration's Comprehensive Electricity Competition Plan proposes the following changes to the tax-exempt bond rules to resolve issues under current law and assure that restructuring of the electric power industry will deliver real savings for all Americans.

To address the change-in-use issue, pre-effective date bonds (i.e., bonds issued before the date the proposal is enacted) used to finance transmission facilities would be permitted to retain their tax-exempt status notwithstanding private use resulting from actions pursuant to a FERC order requiring nondiscriminatory open access to those facilities. Under the Administration's broader plan for encouraging industry restructuring, FERC would be given the power to require governmental electric utilities to provide such open access.

To encourage municipal power systems to open their service areas to competition, pre-effective date bonds used to finance generation or distribution facilities would be permitted to retain their tax-exempt status notwithstanding private use resulting from the issuer's implementation of retail competition or from the issuer entering into a contract for the sale of electricity or use of its distribution property that will become effective after implementation of retail competition.

These changes will not affect the treatment of a sale to a private entity of a facility financed with tax-exempt bonds. Such a sale will continue to constitute a change in use.

To establish fair competition in a restructured industry, interest on bonds (other than pre-effective date bonds) that finance electric generation or transmission facilities would not be exempt. Distribution facilities, defined as those operating at 69 kilovolts or less (including functionally related and subordinate property), could continue to be financed with tax-exempt bonds under the change-in-use rules of current law. In addition, tax-exempt bonds could be issued to refund bonds issued before the enactment of our proposal, but advance refunding would not be permitted.

NUCLEAR DECOMMISSIONING

Current Law

Under current law, an accrual basis taxpayer generally may not deduct an item until economic performance has occurred with respect to that item. This economic performance requirement defers deductions for costs incurred in decommissioning a nuclear power plant until decommissioning occurs. A taxpayer that is liable for the decommissioning of a nuclear power plant may, however, deduct contributions to a qualified nuclear decommissioning fund that will be used to pay the decommissioning costs.

A qualified nuclear decommissioning fund is a segregated fund that accepts only contributions for which a deduction is allowable and that is used exclusively for the payment of decommissioning costs, taxes on fund income, payment of management costs of the fund, and making investments. The taxpayer establishing or maintaining the fund must have a direct ownership interest or, subject to certain restrictions, a leasehold interest in a nuclear power plant and must be liable for decommissioning the plant. A nuclear power plant is defined for this purpose as a nuclear plant used predominantly in the trade or business of furnishing or selling electricity at rates that have been established or approved by a public utility commission. The fund is prohibited from dealing with the taxpayer that established the fund. The fund is subject to tax at a flat 20-percent rate. In general, tax is imposed on the fund's net investment income after the deduction of management costs.

The taxpayer maintaining a qualified nuclear decommissioning fund generally must include in income any amount distributed by the fund, other than for payment of management costs. Thus, amounts withdrawn by the taxpayer to pay nuclear decommissioning costs are included in income when the withdrawal occurs. At that time, however, the taxpayer will be allowed a deduction for decommissioning costs with respect to which economic performance has occurred.

Except to the extent provided in regulations, a taxpayer is also required to include in gross income any amounts that are properly includible when (1) the disqualification of a qualified fund results in a deemed distribution of its assets, (2) the taxpayer is required to terminate a qualified fund because decommissioning of the nuclear power plant to which the fund relates is substantially complete, or (3) the taxpayer disposes of the nuclear power plant to which a qualified fund relates.

The regulations provide rules that apply when a taxpayer disposes of a nuclear power plant and, in connection with the disposition, transfers its interest in a qualified fund relating to that plant. If the transferee is eligible to maintain a qualified fund and continues to maintain the fund after the transfer while satisfying certain other conditions, the transfer of the fund is treated as a nontaxable transaction. The transferor does not recognize any gain or loss on the transfer and the transfer is not treated as a distribution of fund assets with respect to which an inclusion in gross income is required. The transferee also does not recognize any gain or loss on the transfer and takes the transferor's basis in the fund. Under the regulations, the IRS may, if necessary and appropriate to carry out the purposes of the statutory and regulatory provisions relating to qualified funds, apply these rules (and permit continued qualification of the fund) even in cases in which the transferee would not otherwise be permitted to maintain a qualified fund.

The amount that may be contributed to a qualified nuclear decommissioning fund for a taxable year is limited to the lesser of the cost of service amount or the ruling amount. The cost of service amount is the amount of nuclear decommissioning costs included in the taxpayer's cost of service for ratemaking purposes for the taxable year. The ruling amount is the amount that the IRS determines to be necessary to provide for level funding of an amount equal to a specified percentage of the nuclear decommissioning costs of the taxpayer. The percentage of nuclear decommissioning costs that can be funded through a qualified fund is determined by dividing the period during which the fund is in effect by the useful life of the nuclear power plant. In general, the effect of this limitation is that qualified funds cannot be used to fund nuclear decommissioning liabilities that relate to taxable years beginning before the enactment in 1984 of the provision permitting taxpayers to establish such funds. The IRS specifies a schedule of ruling amounts in a ruling issued to the taxpayer. If circumstances change, a taxpayer may request a revised schedule of ruling amounts. In addition, the schedule is reviewed at intervals of no more than 10 years (5 years if, instead of a schedule prescribing a dollar amount for each taxable year, the IRS has approved a formula or method for determining the schedule of ruling amounts).

Taxpayers may set aside funds for nuclear decommissioning in addition to the amounts they contribute to qualified funds. In some instances, State or Federal regulators require such additional funding. In addition, some taxpayers maintained segregated nuclear decommissioning funds prior to the effective date of the qualified decommissioning fund rules. In the case of amounts irrevocably set aside for nuclear decommissioning before July 19, 1984 (the effective date of the economic performance requirement), taxpayers may have taken the position that a deduction was allowable at the time the funds were set aside. Alternatively, taxpayers may have taken the position in taxable years ending before that date that such amounts, if set aside to comply with State or Federal regulatory requirements, were not includible in gross income. Since 1984, no deduction or exclusion from gross income has been allowable with respect to contributions to, or segregation of amounts in, nonqualified funds and the income of a nonqualified fund is taxed to the taxpayer at the taxpayer's marginal rate.

Issues Raised by Deregulation and Restructuring

The rules prescribing favorable tax treatment for qualified nuclear decommissioning funds were adopted at a time when almost all nuclear power plants were operated by regulated public utilities and a nuclear power plant and decommissioning fund would not be transferred except between regulated public utilities. Deregulation and restructuring of the electric power industry have resulted in situations and transactions that were not contemplated when those rules were adopted. These novel circumstances have given rise to a number of questions, including the following:

> May an unregulated taxpayer maintain a qualified nuclear decommissioning fund? This issue may arise when, as part of deregulation, a nuclear power plant and the related decommissioning fund are transferred from a taxpayer subject to rate regulation to an unregulated taxpayer. Alternatively, a taxpayer that was previously subject to rate regulation with respect to electricity produced at a nuclear power plant may, because of deregulation, no longer be subject to such regulation.
>
> Does the transfer of a qualified nuclear decommissioning fund to an unregulated taxpayer result in recognition of gain or loss by the transferor or the fund? Is such a transfer treated as a distribution of fund assets required to be included in the gross income of the transferor?

Is the transferor of a nuclear power plant entitled to a deduction for decommissioning liabilities assumed by the transferee?

To what extent may the purchaser of a nuclear power plant derive an immediate tax benefit from assumption of the seller's decommissioning liabilities?

May an unregulated taxpayer make deductible contributions to a qualified nuclear decommissioning fund? This issue also arises with respect to both previously regulated taxpayers and unregulated transferees.

Guidance under Current Law

Under current law, the IRS may permit the transfer, without disqualification, of a qualified nuclear decommissioning fund, together with the nuclear power plant to which it relates, to a taxpayer that is not a regulated public utility. In addition, the IRS may permit the unregulated transferee to maintain the qualified fund after the transfer. In the cases that have been brought to our attention, it is our view that such treatment is both necessary and appropriate to carry out the purposes of the statutory and regulatory provisions relating to qualified funds. Similarly, a regulated taxpayer that becomes unregulated should also be permitted, in appropriate cases, to continue maintaining a qualified fund.

The IRS may similarly permit the transfer of a qualified nuclear decommissioning fund from a regulated taxpayer to an unregulated taxpayer to qualify as a nontaxable transaction that (1) does not result in recognition of gain or loss by either the transferor or the fund and (2) is not treated as a distribution of fund assets required to be included in the gross income of the transferor. If the transaction is nontaxable, the basis of fund assets will not change and the transferee will take the transferor's basis in the fund. Again, in the cases that have been brought to our attention, it is our view that such treatment is necessary and appropriate under current law.

Under current law, the seller of a nuclear power plant will be allowed a current deduction for any amount treated as realized or otherwise recognized as income as a result of the purchaser's assumption of the seller's decommissioning liability. The economic performance rules would ordinarily defer the seller's deduction until decommissioning occurs. However, regulations provide that, if a trade or business is sold and the purchaser assumes one of its liabilities, economic performance occurs with respect to the liability when the amount of the liability is included in the amount realized by the seller.

Under current law, a liability is not treated as incurred until economic performance occurs with respect to the liability. Thus, the purchaser of a trade or business is not allowed a deduction for liabilities assumed in connection with the purchase until economic performance occurs with respect to the liabilities. The regulations clarify, in the case of nondeductible items, that the economic performance requirement also defers the tax benefit of an increase in basis. The regulations state, "an amount a taxpayer expends or will expend for capital improvements to property must be incurred [i.e., economic performance must occur] before the taxpayer may take the amount into account in computing its basis in the property." In the case of decommissioning liabilities assumed in connection with the purchase of a nuclear power plant, the regulations suggest that the liabilities may not be taken into account in determining the basis of the acquired assets until decommissioning occurs.

Deregulation will generally eliminate traditional cost of service determinations for ratemaking purposes. Because the amount of the deductible contribution to a qualified nuclear decommissioning fund is limited to the amount of nuclear decommissioning costs included in the taxpayer's cost of service for ratemaking purposes, deregulation may result in complete loss of the deduction for contributions to the fund. In many cases, a line charge or other fee will be imposed by a State or local government or a public utility commission to ensure that adequate funds will be available for decommissioning. This charge or fee could be viewed as the equivalent of an amount included in cost of service for nuclear decommissioning, but there is no assurance that all State deregulation plans will provide for such a funding mechanism.

Administration Proposal

The favorable tax treatment of contributions to nuclear decommissioning funds recognizes the national importance of the establishment of segregated reserve funds for paying nuclear decommissioning costs. Although the favorable tax treatment was adopted at a time when nuclear power plants were operated by regulated public utilities, deregulation will not reduce the need for such funds. Accordingly, the Administration's Comprehensive Electricity Competition Plan proposes to repeal the cost of service limitation on deductible contributions to nuclear decommissioning funds. Under the Administration proposal, unregulated taxpayers would be allowed a deduction for amounts contributed to a qualified nuclear decommissioning fund. As under current law, the maximum contribution and deduction for a taxable year could not exceed the ruling amount for that year. The new rules would apply in taxable years beginning after December 31, 1999.

DISTRIBUTED POWER AND COMBINED HEAT AND POWER PROPERTY

The Administration's Plan also includes two tax proposals intended to reduce current barriers to the development of distributed power and combined heat and power technologies.

Distributed Power Property

Newly developed distributed-power technologies have made it possible to place electricity generation assets in or adjacent to commercial and residential establishments, as well as in industrial settings. The current depreciable property classification system, however, does not adequately account for these assets, particularly when they are used to produce both electricity or mechanical power and usable heat. Also, under current law, distributed power assets used to produce electricity in a commercial or residential setting are likely to be depreciated over much longer lives than are similar, or identical, assets used to produce process energy in an industrial setting.

The Administration's Plan proposes to clarify that distributed power property has a 15-year depreciation recovery period. Such property would include assets used to produce electricity that is primarily used in a building owned or leased by the taxpayer. Such assets may also be used to produce usable thermal energy. To avoid abuse, at least 40 percent of the total energy produced would have to consist of electrical power, and no more than 50 percent of the electricity produced could be sold to, or used by, unrelated persons.

This proposal will simplify current law by clarifying the assignment of recovery periods to distributed power property. It will remove taxpayer uncertainty, reduce future tax litigation, and level the playing field for distributed power assets. It should also encourage the use and development of more energy-efficient and less polluting electrical generation technologies.

CHP Investment Tax Credit

Combined heat and power (CHP) systems utilize thermal energy that is otherwise wasted in producing electricity by more conventional methods. Such systems achieve a greater level of overall energy efficiency, and thereby lessen the consumption of primary fossil fuels, lower total energy expenditures, and reduce carbon emissions. The Administration's Plan proposes a temporary tax credit for investments in CHP equipment. The eight-percent credit would be available for investments in large CHP systems that have a total energy efficiency exceeding 70 percent and in smaller systems that have a total energy efficiency exceeding 60 percent. It would be available for qualifying investments made through 2002. To prevent abuses, a qualifying CHP system would be required to produce at least 20 percent of its total useful energy in the form of thermal energy and at least 20 percent of its total useful energy in the form of electrical or mechanical power.

The CHP investment tax credit is expected to accelerate planned investments and induce additional investments in such systems. The increased demand for CHP equipment should, in turn, reduce production costs and spur additional technological innovation in improved CHP systems.

We urge Congress to enact the tax proposals I have outlined in my testimony. These proposed changes are needed to encourage restructuring plans that are being developed by individual States and to permit those plans to realize their full potential.

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

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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Weekly Release of U.S. Reserve Assets

October 19, 1999

The Treasury Department today released U.S. reserve assets data for the week ending October 15, 1999.

As this table indicates, U.S. reserve assets totaled $73,951 million as of October 15, 1999, up from $73,058 million as of October 8, 1999.

U.S. Reserve Assets (millions of US dollars)						
1999	Total		Special	Foreign		Reserve
	Reserve	Gold	Drawing	Currencies [3/]		Position in
Week Ending	Assets	Stock [1/]	Rights [2/]	ESF	SOMA	IMF [2/]
October 8, 1999	**73,058**	11,046	10,277	16,000	16,003	19,731
October 15, 1999	**73,951**	11,046	*10,349*	16,342	16,345	*19,870*

1/ Gold stock is valued monthly at $42.2222 per fine troy ounce. Values shown are as of August 31, 1999. The July 31, 1999 value was $11,048 million.

2/ SDR holdings and the reserve position in the IMF are based on IMF data and valued in dollar terms at the official SDR/dollar exchange rate. Consistent with current reporting practices, IMF data for October 8, 1999 are final. Data for SDR holdings and the reserve position in the IMF shown as of October 15, 1999 (in italics) reflect preliminary adjustments by the Treasury to the October 8, 1999 IMF data.

3/ Includes holdings of the Treasury's Exchange Stabilization Fund (ESF) and the Federal Reserve's System Open Market Account (SOMA). These holdings are valued at current market exchange rates or, where appropriate, at such other rates as may be agreed upon by the parties to the transactions.

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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
October 19, 1999

Contact: Steve Posner
(202) 622-2960

TREASURY SHUTS DOWN ABUSE OF CHARITABLE REMAINDER TRUSTS

The Treasury Department and the Internal Revenue Service issued proposed regulations effective Tuesday aimed at shutting down an abusive tax-avoidance scheme involving charitable remainder trusts. Under this scheme, individuals attempt to use charitable remainder trusts to convert highly-appreciated assets, such as stock, into cash for personal use, without ever paying tax on the gain.

"Shutting down schemes like this helps us create and build on a culture of compliance," Treasury Secretary Lawrence H. Summers said. "When we eliminate abusive tax schemes and shelters, our aim is not merely to protect revenues, but also to protect those who willingly pay their fair share."

The proposed regulations, issued under specific regulatory authority granted by Congress in 1996 to prevent abuses of the tax rules regarding trusts, ensure that individuals are taxed appropriately when they receive a distribution from a charitable remainder trust.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED UNTIL 2:30 P.M.
October 21, 1999

CONTACT: Office of Financing
202/691-3550

TREASURY OFFERS 13-WEEK AND 26-WEEK BILLS

The Treasury will auction two series of Treasury bills totaling approximately $18,000 million to refund $15,453 million of publicly held securities maturing October 28, 1999, and to raise about $2,547 million of new cash.

In addition to the public holdings, Federal Reserve Banks for their own accounts hold $7,353 million of the maturing bills, which may be refunded at the highest discount rate of accepted competitive tenders. Amounts issued to these accounts will be in addition to the offering amount.

The maturing bills held by the public include $3,707 million held by Federal Reserve Banks 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 highest 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.

TreasuryDirect customers requested that we reinvest their maturing holdings of approximately $919 million into the 13-week bill and $733 million into the 26-week bill.

This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular for the Sale and Issue of Marketable Book-Entry Treasury Bills, Notes, and Bonds (31 CFR Part 356, as amended).

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

oOo

Attachment

LS-165

HIGHLIGHTS OF TREASURY OFFERINGS OF BILLS
TO BE ISSUED OCTOBER 28, 1999

October 21, 1999

<u>Offering Amount</u>	$10,000 million	$8,000 million
<u>Description of Offering</u>:		
Term and type of security	91-day bill	182-day bill
CUSIP number	912795 DE 8	912795 DT 5
Auction date	October 25, 1999	October 25, 1999
Issue date	October 28, 1999	October 28, 1999
Maturity date	January 27, 2000	April 27, 2000
Original issue date	July 29, 1999	April 29, 1999
Currently outstanding	$11,548 million	$15,018 million
Minimum bid amount and 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 highest 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 Rate</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>: By charge to a funds account at a Federal Reserve Bank on issue date, or payment of full par amount with tender. *TreasuryDirect* customers can use the Pay Direct feature which authorizes a charge to their account of record at their financial institution on issue date.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED UNTIL 2:30 P.M.
October 20, 1999

CONTACT: Office of Financing
202/691-3550

TREASURY TO AUCTION $15,000 MILLION OF 2-YEAR NOTES

The Treasury will auction $15,000 million of 2-year notes to refund $26,294 million of publicly held securities maturing October 31, 1999, and to pay down about $11,294 million.

In addition to the public holdings, Federal Reserve Banks hold $2,682 million of the maturing securities for their own accounts, which may be refunded by issuing an additional amount of the new security.

The maturing securities held by the public include $3,158 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.

TreasuryDirect customers requested that we reinvest their maturing holdings of approximately $583 million into the 2-year note.

The auction will be conducted in the single-price auction format. All competitive and noncompetitive awards will be at the highest yield of accepted competitive tenders.

The notes being offered today are eligible for the STRIPS program.

This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular for the Sale and Issue of Marketable Book-Entry Treasury Bills, Notes, and Bonds (31 CFR Part 356, as amended).

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

oOo

Attachment

LS-166

HIGHLIGHTS OF TREASURY OFFERING TO THE PUBLIC OF 2-YEAR NOTES TO BE ISSUED NOVEMBER 1, 1999

October 20, 1999

Offering Amount ....$15,000 million

Description of Offering:

Term and type of security ....2-year notes
Series AE-2001
CUSIP number 912827 5R 9
Auction date ....October 27, 1999
Issue date ....November 1, 1999
Dated date ....October 31, 1999
Maturity date ....October 31, 2001
Interest rate ....Determined based on the highest accepted competitive bid
Yield ....Determined at auction
Interest payment dates ....April 30 and October 31
Minimum bid amount and multiples $1,000
Accrued interest payable by investor ....Determined at auction
Premium or discount ....Determined at auction

STRIPS Information:

Minimum amount required ....Determined at auction
Corpus CUSIP number ....912820 ED 5
Due date(s) and CUSIP number(s) for additional TINT(s) ....Not applicable

Submission of Bids:

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

Competitive bids:

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

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

Receipt of Tenders:

Noncompetitive tenders: Prior to 12:00 noon Eastern Daylight Saving time on auction day.
Competitive tenders: Prior to 1:00 p.m. Eastern Daylight Saving time on auction day.

Payment Terms: By charge to a funds account at a Federal Reserve Bank on issue date, or payment of full par amount with tender. *TreasuryDirect* customers can use the Pay Direct feature which authorizes a charge to their account of record at their financial institution on issue date.

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

FEDERAL FINANCING BANK September 30, 1999

Kerry Lanham, Secretary, Federal Financing Bank (FFB), announced the following activity for the month of August 1999.

FFB holdings of obligations issued, sold or guaranteed by other Federal agencies totaled $39.3 billion on August 31, 1999, posting a decrease of $560.0 million from the level on July 31, 1999. This net change was the result of a decrease in holdings of agency debt of $366.6 million, in holdings of agency assets of $175.0 million, and in holdings of agency guaranteed loans of $18.4 million. FFB made 47 disbursements during the month of August. FFB also received 12 prepayments in August.

Attached to this release are tables presenting FFB August loan activity and FFB holdings as of August 31, 1999.

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FEDERAL FINANCING BANK
AUGUST 1999 ACTIVITY

Borrower	Date	Amount of Advance	Final Maturity	Interest Rate
ENCY DEBT				
.S. POSTAL SERVICE				
.S. Postal Service	8/02	$218,400,000.00	8/03/99	4.971% S/A
.S. Postal Service	8/06	$225,400,000.00	8/09/99	4.917% S/A
.S. Postal Service	8/09	$250,000,000.00	8/10/99	4.866% S/A
.S. Postal Service	8/09	$287,400,000.00	8/10/99	5.086% S/A
.S. Postal Service	8/10	$150,000,000.00	8/11/99	4.917% S/A
.S. Postal Service	8/10	$249,100,000.00	8/11/99	5.076% S/A
.S. Postal Service	8/11	$325,800,000.00	8/12/99	5.034% S/A
.S. Postal Service	8/12	$203,000,000.00	8/13/99	4.919% S/A
.S. Postal Service	8/13	$100,000,000.00	8/16/99	5.034% S/A
.S. Postal Service	8/13	$311,400,000.00	8/16/99	4.855% S/A
.S. Postal Service	8/16	$96,800,000.00	8/17/99	4.961% S/A
.S. Postal Service	8/20	$100,000,000.00	8/23/99	4.888% S/A
.S. Postal Service	8/20	$358,600,000.00	8/23/99	4.958% S/A
.S. Postal Service	8/23	$325,000,000.00	8/24/99	4.877% S/A
.S. Postal Service	8/23	$484,900,000.00	8/24/99	5.139% S/A
.S. Postal Service	8/24	$325,000,000.00	8/25/99	4.958% S/A
.S. Postal Service	8/24	$326,400,000.00	8/25/99	5.118% S/A
.S. Postal Service	8/25	$200,000,000.00	8/26/99	5.139% S/A
.S. Postal Service	8/25	$250,300,000.00	8/26/99	5.055% S/A
S. Postal Service	8/26	$75,000,000.00	8/27/99	5.118% S/A
S. Postal Service	8/26	$299,500,000.00	8/27/99	5.055% S/A
S. Postal Service	8/27	$254,900,000.00	8/30/99	5.105% S/A
S. Postal Service	8/30	$108,400,000.00	8/31/99	5.138% S/A
'ERNMENT-GUARANTEED LOANS				
:NERAL SERVICES ADMINISTRATION				
'TC Building	8/02	$15,308.00	11/02/26	6.351% S/A
ley Square Office Bldg	8/11	$23,166.00	7/31/25	6.532% S/A
mphis IRS Service Cent	8/12	$21,957.44	1/02/25	6.484% S/A
TC Building	8/20	$568,173.02	11/02/26	6.348% S/A
ley Services Contract	8/24	$35,338.43	7/31/25	6.346% S/A
ley Services Contract	8/24	$26,232.57	7/31/25	6.346% S/A
amblee Office Building	8/31	$595,996.00	10/01/26	6.405% S/A
PARTMENT OF EDUCATION				
Va. State College	8/19	$135,726.80	9/01/26	6.329% S/A
RAL UTILITIES SERVICE				
N. Tennessee EMC #510	8/02	$5,600,000.00	1/03/33	6.256% Qtr.
astal Electric #460	8/05	$719,000.00	12/31/31	6.277% Qtr.
ghline Elec. #538	8/05	$2,211,000.00	1/03/34	6.141% Qtr.

FEDERAL FINANCING BANK
AUGUST 1999 ACTIVITY

Borrower	Date	Amount of Advance	Final Maturity	Interest Rate
ootenai Elec. #531	8/05	$2,000,000.00	10/02/00	5.292% Qtr.
icking Valley Elec. #522	8/06	$1,633,000.00	1/03/00	4.993% Qtr.
gralite Elec. #543	8/13	$1,438,000.00	1/03/34	6.239% Qtr.
elaware County Elec. #470	8/13	$852,000.00	1/02/29	6.422% Qtr.
enard Elec. #518	8/16	$1,000,000.00	10/02/00	5.356% Qtr.
awkeye Tri-County Elec. #509	8/17	$678,000.00	1/03/33	6.287% Qtr.
ackson Energy #527	8/19	$2,000,000.00	10/02/00	5.334% Qtr.
outh Texas Electric #505	8/19	$845,000.00	12/31/24	6.295% Qtr.
umter Elec. #485	8/23	$500,000.00	10/02/06	6.161% Qtr.
itizens Elec. #529	8/25	$1,961,000.00	1/03/00	5.143% Qtr.
arshalls Energy Co. #458	8/26	$325,000.00	1/02/18	6.728% Qtr.
xcelsior Elec. #468	8/27	$700,000.00	12/31/31	5.971% Qtr.
kefenoke Rural Elec. #486	8/31	$2,377,000.00	10/02/06	6.222% Qtr.

S/A is a Semiannual rate.
Qtr. is a Quarterly rate.

FEDERAL FINANCING BANK HOLDINGS
(in millions of dollars)

Program	August 31, 1999	July 31, 1999	Monthly Net Change 8/1/99- 8/31/99	Fiscal Year Net Change 10/1/98- 8/31/99
Agency Debt:				
U.S. Postal Service	$2,250.0	$2,616.6	-$366.6	-$3,446.1
Subtotal*	$2,250.0	$2,616.6	-$366.6	-$3,446.1
Agency Assets:				
FmHA-RDIF	$3,410.0	$3,410.0	$0.0	-$265.0
FmHA-RHIF	$7,270.0	$7,445.0	-$175.0	-$2,230.0
DHHS-HMO	$1.7	$1.7	$0.0	-$1.4
DHHS-Medical Facilities	$3.2	$3.2	$0.0	-$4.0
Rural Utilities Service-CBO	$4,598.9	$4,598.9	$0.0	$0.0
Subtotal*	$15,283.8	$15,458.8	-$175.0	-$2,500.4
Government-Guaranteed Lending:				
DOD-Foreign Military Sales	$2,628.6	$2,662.3	-$33.7	-$200.4
DoEd-HBCU+	$11.0	$10.9	$0.1	$6.5
DHUD-Community Dev. Block Grant	$14.0	$14.7	-$0.8	-$16.5
DHUD-Public Housing Notes	$1,419.9	$1,419.9	$0.0	-$71.5
General Services Administration+	$2,408.4	$2,414.7	-$6.3	-$64.8
DOI-Virgin Islands	$16.1	$16.1	$0.0	-$1.3
DON-Ship Lease Financing	$1,138.7	$1,138.7	$0.0	-$86.2
Rural Utilities Service	$13,969.0	$13,944.2	$24.8	-$197.4
SBA-State/Local Development Cos.	$197.5	$200.2	-$2.6	-$35.8
DOT-Section 511	$3.7	$3.7	$0.0	-$0.1
Subtotal*	$21,807.0	$21,825.4	-$18.4	-$667.7
Grand total*	$39,340.8	$39,900.8	-$560.0	-$6,614.2

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

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
October 22, 1999

CONTACT: PUBLIC AFFAIRS
(202) 622-2960

STATEMENT BY TREASURY SECRETARY LAWRENCE H. SUMMERS ON THE FOREIGN OPERATIONS LEGISLATION

In the coming days the United States Congress will be making some important decisions about the investments that we make in supporting our national interests overseas. It is important that the American people understand what is at stake in some of these decisions.

- In 1991, President Bush requested funding for a $1.8 billion U.S. contribution to the International Financial Institutions. For 2000, President Clinton has requested $1.4 billion – and yet Congress has cut that request to just $895 million. That is less than half the level of spending in 1991 – and more than 35 percent below the President's request. And it is not enough to get the job done.

- The same bill would also fatally undermine a global effort to reduce the debt of the poorest countries. In the current bill, appropriations for this effort would be just $33 million – compared to the President's request for $970 million over 4 years.

The President's International Affairs request for these and other international priorities is not large by historical standards – and it is barely one percent of the total federal budget. Because it is fully funded, it does not subtract from our capacity to meet critical domestic priorities – and it does not mean spending any of the Social Security surplus.

The request was carefully crafted to include only high return investments in America's core interests and its global leadership – investments that for more than 50 years have enjoyed strong bipartisan support:

- Every dollar we contribute to the multilateral development banks leverages more than $45 in official lending to countries where more than three-quarters of the world's people live.

LHS-168

- **As the President has noted, the U.S. has less than 5 percent of the world's population – and more than 20 percent of its income. To maintain our standard of living, we need other countries to develop and become larger markets for our goods and services. These programs are focused on exactly that – on building market economies in the developing world that are open to our goods and our ideas. Quite simply, they are the most effective tools we have for investing in the markets for tomorrow.**

- **By supporting these programs we help to sustain American global economic leadership – and to promote changes overseas that reflect core American values – like free markets, strong property rights and open borders.**

- **Writing off debts owed by countries that will never be able to repay them is sound financial accounting. It is also a moral imperative at a time when a new generation of African leaders is trying to throw off the legacies of the Cold War and open up their economies.**

- **That is what the Heavily Indebted Poor Country initiative is about. It will not write off the debts of countries that are not working to reform. It will help build future markets in countries that are committed to helping themselves.**

The Foreign Operations legislation passed by Congress would prevent core investments in this country's future, which is why the President vetoed it. Its potential budget saving would be minimal, but the long-term costs for American leadership, American markets and American values would be incomparably higher.

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DEPARTMENT OF THE TREASURY

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FOR IMMEDIATE RELEASE
October 22, 1999

Contact: Bill Buck
(202) 622-2960

STATEMENT BY TREASURY SECRETARY LAWRENCE H. SUMMERS

This legislation, if successfully completed, would at the end of the 20th century replace archaic financial restrictions with a legal foundation for a 21st century financial system. It would benefit consumers by providing them with more choice, lower prices through competition, new privacy protections, and continued investment in their communities. It would benefit the economy by promoting financial innovation, lower capital costs and greater international competitiveness.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR IMMEDIATE RELEASE
Text as Prepared for Delivery
October 28, 1999

UNDER SECRETARY OF THE TREASURY FOR DOMESTIC FINANCE
GARY GENSLER
REMARKS TO THE BOND MARKET ASSOCIATION
1999 ANNUAL LEGAL AND COMPLIANCE CONFERENCE
NEW YORK, NY

I am very pleased to be here today. This is a historic moment for the U.S. financial system. Legislation that will repeal the arcane Depression era Glass-Steagall Act is likely to be voted on by both Houses of Congress in the coming week. For decades, prior Congresses and Administrations have worked to repeal the laws that have separated the banking, securities, and insurance industries. Finally, we are on the brink of success with the newly renamed Gramm-Leach-Bliley Act. Beyond the efforts of these three Chairmen of the Conference Committee, I'd like to recognize the significant leadership and accomplishments of Senator Sarbanes and Representatives LaFalce and Dingell.

As a result of these efforts, we believe that the agreements that have been reached on a bipartisan basis will result in a final bill that is good for the economy and the financial system and good for consumers and communities. While repealing Glass-Steagall is important, the Administration insisted that the bill benefit consumers and communities as well as the financial industry. That's why we were willing to walk away from the bill, even at the eleventh hour, if it did not meet that standard. We believe the final bill will meet that standard. If the language of the bill and the report remain consistent with the agreements that have been reached, the Administration will support enactment of this legislation.

When the Glass-Steagall Act was passed, the financial and economic landscape of our country differed greatly from today. In 1933, banks dominated the financial industry and the economy to an extent that we find difficult to imagine today. Banks had no choice but to hold the mortgages and loans they originated and consumers had little choice as to where to place their savings. In addition, banks served only their local markets.

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*U.S. Government Printing Office: 1998 - 619-559

Today, there is broad consumer choice. Banks compete for deposits with money market funds and savings products offered by securities firms, asset managers, and insurers. Securitization has changed the way banks manage their assets -- mortgages and other loans are readily put in tradeable form and sold. An $80 trillion dollar derivatives market has revolutionized the way financial firms manage their risks and the products they offer. And today, the markets for financial products are not just national, but truly global in reach. Spurred by competition, innovation, and technology, our financial industry and our economy have been reshaped over the decades since 1933.

To a significant extent, our financial services industry has already modernized itself, even without the final repeal of the Glass-Steagall Act. The industry is preeminent globally. This has been facilitated, in part, by the erosion through judicial and regulatory actions of the walls erected in 1933. Subject to certain limits, banking institutions have been able to offer brokerage services and to engage in securities underwriting through so-called ASection 20" firms.

Benefits of the Bill

The greatest benefit of the bill will be to permit financial services firms to offer banking, securities, and insurance products all within one organization. At its core, the bill pulls down barriers to competition. Allowing financial services firms to offer this wider array of products will give these firms the flexibility to respond to their customers' needs. Financial institutions will be able to expand the banking, securities, and insurance products they offer without artificial structural limitations.

Common ownership of diverse financial services firms will enable these firms to compete using the best that each discipline has to offer. Asset and risk management techniques, funding techniques, technological innovation, product development, and approaches to serving customers and communities are just some of the areas in which significant gains can be made through new business combinations. Particularly in an era of rapidly changing technology, firms will be able to take advantage of greater operating efficiencies.

I believe that this legislation will result in a diversity of approaches to financial services. Just as with any other industry, some companies will be successful at serving their customers by remaining specialized and focusing on particular markets or areas. Others will be successful by offering a broad range of products or by serving many markets. There will not be just one single approach that will be successful. This legislation will ensure that the choices firms make are dictated by the markets and by customers -- not by artificial barriers erected by the government decades ago.

Consumers and Communities

As important as these benefits of financial modernization are, the President insisted that a financial modernization bill must include adequate protections for consumers and must preserve the relevance of the Community Reinvestment Act. As a result of the provisions included on CRA, investor protection, and privacy, we believe the final bill achieves these objectives.

Over the many years of major financial modernization proposals, no major bill ever addressed the issue of consumer privacy. The President took an important step when on May 4 he laid out his principles on protection of individual privacy. The Senate bill, which had already passed, included no privacy provisions. The House then acted by a vote of 427-1 to add privacy to their bill. The final bill goes further, providing significant privacy protections.

For the first time, financial institutions will be required to adopt privacy policies and to disclose these policies to their customers. Financial Institutions will be required to give their customers notice annually on how their personal information is being shared, even amongst affiliates. Consumers will have the right to prevent personal financial information from being shared with third parties, subject to limited exceptions that will permit institutions to continue to operate efficiently. The financial regulatory agencies will have the authority to write and enforce rules to implement these privacy protections. Importantly, this bill will preserve the rights of States to provide even stronger privacy protections. While we believe more can and should be done to give consumers choice before their information is shared with affiliates, the final bill takes an important first step.

We believe that communities also will benefit from the bill. For the first time, a bank's performance under the Community Reinvestment Act will be considered when it expands outside of traditional banking activities. A banking organization will not be able to commence a new activity, directly or indirectly, or to merge with or acquire a company engaged in such activities, unless every insured bank within the organization is serving its communities, as measured by a satisfactory CRA rating.

Under the bill, CRA will continue to apply to all banks without exception, and existing procedures for public comment are preserved. Small banks will have an incentive to achieve better CRA ratings to reduce the frequency of examinations. The final bill includes disclosure provisions related to certain agreements entered into by banks related to CRA. These provisions were improved substantially from the Senate bill and from the initial proposals of the Chairmen of the Conference Committee. It is important that these requirements be implemented in a reasonable manner to ensure that they do not chill the work of those who do so much in our underserved communities. We will work hard in the regulatory process to ensure this result. Community-based organizations are essential to effective implementation of CRA, and to combined growth and opportunity in our communities.

I believe that, taken together, these provisions will ensure that CRA continues to work for all communities.

Organizational Structure

The bill contains important limitations on the financial services firms of the future. We believe that a modern financial system should retain some separation between banking and other financial activities. The alternative, universal banking, is popular around the world, but we believe is the wrong choice for this country at this time. Thus, although the bill allows common ownership of banking, securities, and insurance firms, it still requires those activities to be conducted separately within an organization, subject to functional regulation and funding limits.

At the same time, the bill allows for organizational choice, enabling a financial institution to structure itself and its activities in a manner that best suits its needs, as well as promoting safety and soundness. The provisions of the final bill will preserve an important role for the executive branch with regard to banking policy and the evolution of the financial system of the future.

We believe that when it comes to non-financial firms, even greater separation is appropriate, and that common ownership should be prohibited. One of the lessons of the Asian experience of the past few years is that financial institutions tend to make bad decisions when it comes to lending to corporate owners or siblings. The synergy gains of combining financial and non-financial firms are not great and the potential downside is considerable. Thus, I believe that the United States economy has been well served by preserving a clear separation between those who allocate capital and the majority of those competing for it.

Importantly, the bill would prohibit the transfer of unitary thrifts to non-financial firms. In addition, it sets some important limitations on merchant banking activities in banking institutions. Surely, this is an area where we need to move cautiously, at least until we gain experience with the effects of broader financial firms.

Commodity Exchange Act

As Congress passes this historic legislation this week, we are also embarking on another effort to revise a significant piece of legislation that is in need of updating -- the Commodity Exchange Act.

The President's Working Group on Financial Markets will shortly be reporting on our joint views on over-the-counter derivatives. We will also report on proposed revisions to the Commodity Exchange Act in connection with the upcoming reauthorization of the Commodity Futures Trading Commission. The process represents a unique opportunity to move forward to modernize the legal and regulatory framework for the derivatives markets. There are a number of important principles I would like to mention in that regard.

First, it is critical that we provide legal certainty for OTC derivatives. Legitimate transactions have come under a legal cloud as a result of expansive interpretations of the CEA over the years. Such uncertainty can create systemic risk and must be resolved. Second, we must consider the potential for properly designed, centralized clearing of OTC contracts. This could significantly reduce systemic risk in these markets and contribute to the stability of our financial markets. Third, we must allow for innovation and the emergence of more efficient trading mechanisms in order to ensure that the U.S. remains preeminent in these markets. Fourth, the Working Group also must address other extremely important areas, particularly concerning the Treasury Amendment, which excludes from the CEA transactions in government securities or foreign currency. Lastly, we need to ensure that loopholes do not exist that allow bucket shops and other fraudulent operators to prey on retail customers.

The members of the Working Group are working diligently to achieve a consensus on recommendations that can be sent forward to the Congress. The Working Group has focused on finding resolutions that will ensure the integrity of markets while fostering innovation and competition. These two goals, ensuring market integrity and fostering innovation, need not be competing or incompatible objectives. Innovation and competition are critical to ensuring the integrity of our markets over the long term.

Let me conclude by saying that we have a historic opportunity to prepare for the 21st Century by updating archaic laws from the early 20th Century. It will strengthen our financial sector and promote our economy.

Thank you.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED UNTIL 8:30 AM CHINA LOCAL
Text as Prepared for Delivery
October 25, 1999

TREASURY SECRETARY LAWRENCE H. SUMMERS
REMARKS FOR OPENING PLENARY
CHINA - U.S. JOINT ECONOMIC COMMITTEE TWELFTH SESSION
BEIJING, CHINA

Thank you Mr. Minister. On behalf of our delegation, let me say how pleased we are to be back in Beijing for this 12th session of our Joint Economic Committee. On the sidelines of the World Bank/IMF Annual Meetings in Washington, Finance Minister Xiang and I spoke about organizing this next session of the JEC. I am delighted to be here less than one month later.

Little did I expect that this trip would take me all the way to Lanzhou, a city on the path of the old silk road, located in what is now one of the poorest provinces in China. This visit gave me fresh insight into the challenges and opportunities that China faces in extending the benefits of market-led reform to the interior provinces. I would like to thank Premier Zhu and Minister Xiang for making that trip possible.

These JEC sessions are only one of the many opportunities we have to meet each year, but they play an important role in helping us to understand each others' economies and economic policies, and to exchange views on a wide range of issues of critical concern to both our countries. They have become well-established fixtures on our respective calendars – and I hope they will remain so.

A great deal has happened in the 17 months since our last JEC, including some happy events in our bilateral relations, but also some difficult and painful ones. I am pleased to say the relationship between our Treasury and your Finance Ministry has remained productive throughout this time.

Let me say a little about five key issues on our agenda today:

- Important recent developments in the global economy
- Domestic macroeconomic conditions in the United States and China
- Chinese financial sector and state-owned-enterprise reforms

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- External economic issues and integration
- And key issues regarding cooperation in international law enforcement

Developments in the global economy

The most significant global economic events during this period have been the move toward recovery in the East Asian crisis economies – and the financial crises in Russia and Brazil. These developments have given fresh impetus to international efforts to build a stronger and more stable global financial architecture – efforts in which China has played a very active role.

In its participation in regional fora such as APEC and the Manila Framework grouping, and in broader meetings of the G-22 and G-33, China has made a welcome contribution to building the stronger regional and global economy in which it has such a growing stake. Its participation will be further cemented by China's membership in the G-20. This permanent informal mechanism for high level discussion of economic and financial issues among the G7 and key emerging market economies will meet for the first time in December.

Macroeconomic conditions in the United States and China

Turning to our respective domestic economic environments, our two economies appear to have weathered recent storms in regional and global financial markets quite well. But while the United States economy has performed extremely well during the 1990s, we recognize that this has come in large part from making difficult decisions – especially with respect to taming our federal budget. We recognize that we cannot afford to take these good times for granted.

During the same period China has also continued to grow and to work to implement difficult macro-economic and structural reforms. We will be interested in hearing how you view the prospects for the Chinese economy going forward, the role of fiscal and monetary policies in that outlook, and your views on how best to address the formidable challenge of deflation.

Financial sector and state-owned enterprise reforms

The questions of how best to address deep-seated financial sector problems – and prevent them being repeated – is scarcely unique to China. Countless other economies have faced some of the same challenges in recent decades. The United States learned a number of costly lessons in the course of the 1980s savings and loan crisis – lessons that we have since been working to apply in the 1990s. Most recently, Congress appears to have reached agreement on major legislation to revamp our financial system and its regulation with the goal of improving its ability to allocate capital efficiently, within an appropriate framework of regulation and supervision.

I know that you recognize that resolving the problems in your financial sector will be critical to the success of China's economy in the years ahead. At last year's JEC, you told us about your plans to increase the independence of the Peoples' Bank of China and to grant greater autonomy and market-orientation to the four state-owned banks. We will be very interested in learning about the progress made since then, and how you plan to proceed from here. We would like to explore the possibility of intensifying our dialogue on the crucial issues in capital market development, including securities markets.

We also spoke last year about your intention to address the problems of state-owned-enterprises, and allow market forces to operate more broadly in your economy. Since then we have seen your important reform achievements in the coal and textile industries, but we would be interested in an update on the steps being taken throughout the enterprise sector to meet your goals. We are also interested in hearing about your efforts to untangle and separate the complex web of services that state-owned enterprises provide, such as housing, health care, and education.

External policies and integration

We also wish to exchange views about trade prospects and economic openness, and how our joint trade agenda can be moved forward. In our view, the openness of our own economy has been an important key to America's prosperity over the long term. It has brought us the benefits of goods, capital, services, and ideas from abroad. It has also brought periods of tremendous challenge to our producers, forcing them to reassess their business practices and strategies. And it has brought us foreign savings when our own savings have fallen short of our investment demands.

In the past two decades China has clearly become a major trading partner for the United States, and has benefited greatly from access to the United States and global markets. We will be interested in learning more about your thoughts on our respective external situations, including steps that can be taken to address the imbalance in our bilateral trade. More broadly, we will be interested in discussing the ways that greater opening of the Chinese economy and financial sector could help support and accelerate other aspects of China's economic progress – notably SOE and financial sector reform.

Enforcement issues

International crime poses great difficulties in all of the world's economies, and it is essential that all countries work together to fight it. I hope that we can agree that both sides should observe fully the terms of the Memorandum of Understanding and Statement of Cooperation on prison labor. We welcome the conclusion of the Customs Mutual Assistance Agreement, and hope that we will be able to strengthen cooperation in other areas, including combating international organized crime, narcotics trafficking, counterfeiting, and money laundering.

This is a very full agenda for a one-day meeting. I would like to end at this point, so that we can move forward to the dialogue on specific issues. I hope, as in the past, that the discussions will be conducted in a spirit of openness, friendliness, and a desire to learn and exchange views. Disagreements are inevitable in a relationship of this size and complexity as that between our two nations. But I think our relationship is strong enough that we can address such issues frankly, to better improve our mutual understanding and move us forward.

Before I return the podium to Minister Xiang, I'd like to introduce the key members of the U.S. delegation who will be participating in the discussions today: Federal Reserve Governor Meyer will co-chair this morning's working group; and Assistant Secretary of the Treasury for International Affairs Truman will co-chair this afternoon's session. Thank you very much. I look forward to a fruitful meeting.

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DEPARTMENT OF THE TREASURY

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Text As Prepared for Delivery
October 25, 1999

JOINT STATEMENT
12TH SESSION OFTHE CHINA-U.S. JOINT ECONOMIC COMMITTEE
BEIJING October 25, 1999

At the invitation of Finance Minister Xiang Huaicheng, Secretary Summers visited China. Minister Xiang and Secretary Summers co-chaired the 12th session of the China-United States Joint Economic Committee (JEC). During the meeting, 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, fiscal and financial fields had been enhanced through dialogue on a regular basis in the JEC. They stressed their common desire to continue deepening cooperative relations between the two countries in general, and collaboration in international economic and financial affairs in particular.

The 12th session of the JEC addressed both domestic and international economic issues.

- On domestic economic issues, both sides discussed the progress and challenges they face in sustaining economic growth. The United States pointed to prudent fiscal and monetary policies on its side, and particularly to a federal budget surplus expected in fiscal year 2000, for the third consecutive year. China emphasized that it will continue its pro-active fiscal policy and appropriate monetary policy stance so as to maintain the balance of payments and therefore maintain the stability of the RMB exchange rate, thereby further boosting domestic demand.

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- Meanwhile, China stressed its current efforts on further deepening the reforms of state-owned enterprises and the financial sector, and establishing a sound social security system so as to maintain the growth momentum of the national economy. The United States expressed support for these objectives. The United States and China have agreed to establish a more intensive process of dialogue on financial and capital market development issues, including the roles of foreign financial services providers in each of our countries, under the JEC mechanism. This process will be co-chaired by our Finance Deputies and Central Bank Deputies and will include securities market regulators and banking supervisory officials. This process is described further in the attachment.

- The two sides exchanged views on economic issues of mutual interests, such as domestic economic policies and goals. The two sides discussed the issues related to macroeconomic conditions, including the importance of sound macroeconomic fundamentals and strong financial systems. They also discussed the external position of both countries, including trade balances, investment flows, foreign exchange reserves, debt, and exchange rate policy.

- On international economic and financial issues, the two sides reviewed the current global economic situation, and touched upon the issues of financial crisis prevention and management. The two sides welcomed the creation of the new informal mechanism for dialogue among systemically important countries and the inclusion of key emerging market economies in this group. They looked forward to the opportunity, at the first meeting in December, to exchange views with their counterparts on important issues facing the world economy, including further steps to strengthen the international financial architecture.

- The two sides discussed the roles of the two countries in the regional and global financial system in the context of the Asian financial crisis. They also reviewed the external positions of both countries. In addition they discussed China's accession to the WTO.

- The two sides discussed money laundering and bilateral law enforcement agreements, including enforcement that applies to exports and imports of goods made by prison labor. They discussed what they could do to strengthen co-operation in this area and observe existing agreements so as to enforce them. They expressed satisfaction with the signing of a Customs Mutual Assistance Agreement since the last JEC meeting. They reiterated their belief that this Agreement will strengthen bilateral efforts to suppress international organized crime, narcotics trafficking, smuggling activity and violations of intellectual property rights. Both sides expressed satisfaction with progress made on the Shanghai Model Port Project under the auspices of APEC and hoped to achieve further concrete progress in the areas of technical assistance and professional training.

Minister Xiang particularly drew attention to the following developments since the last JEC meeting:

- He stressed the importance of the constructive meeting between President Jiang and President Clinton in Auckland, New Zealand. Such a result will advance bilateral relations. He was of the view that the regular dialogue of the financial ministers would help to promote the cooperative goals set forward by the two presidents. He believed that maintaining high level bilateral contacts would deepen mutual understanding and further promote the bilateral relationship between the two countries.

- He pointed out that China had deepened reforms to move toward a market-based economy. China gave priority to restructuring state owned enterprises and the financial sector, and establishing a sound social security system.

- He noted that despite the Asian crisis, China had managed to keep a favorable external position.

Secretary Summers also remarked on a number of specific issues:

- He discussed recent developments in the U.S. economy, in particular noting that he expects the momentum of expansion to continue with strong growth and low inflation, subject to the normal ups and downs.

- He expressed his pleasure that China will participate actively in the new informal mechanism for dialogue among systemically important countries.

- He reiterated the hope that relations between the U.S. Treasury and the Chinese Ministry of Finance would continue to develop. He noted that there had been a significant expansion of contacts between officials of the two organizations, and expressed his hope that such cooperation could be further expanded.

<u>Both sides recognized the potential problems related to the Y2K issue and have been cooperating to deal with them. They pledged to continue their cooperation with a view toward addressing any problems that may arise with the turn of the millennium.</u>

The two sides agreed that the next meeting of the JEC would take place in Washington, D.C. in 2000.

The Chinese delegation to the JEC consisted of representatives of the Ministry of Finance, Ministry of Foreign Affairs, State Development and Planning Commission, State Economic and Trade Commission, Ministry of Foreign Trade and Economic Cooperation, the Ministry of Justice, the People's Bank of China, State Administration of axation, General Administration of Customs, China Securities Regulatory Commission, and State Administration of Foreign Exchange.

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 Office of the Comptroller of the Currency, the National Security Council, the National Economic Council, the U.S. Customs Service, and the U.S. Embassy in Beijing.

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Attachment to JEC Statement

The United States and China have agreed to establish a more intensive process of dialogue on financial and capital market development issues, including the roles of financial services providers in each of our countries. This process will be co-chaired by our Finance Deputies and Central Bank Deputies and will include our national securities market regulators and banking supervisory officials as well as other experts, as appropriate.

Issues under discussion will include:

- Financial sector development, including regulatory and infrastructure issues;
- Capital markets development, including deepening the securities market;
- Policy challenges of capital markets integration; and
- Approaches to promoting product diversification and appropriate risk management procedures.

This process will foster cooperation in an area critical to China's development and future growth, contributing to increasing confidence while promoting dynamism in China's financial markets. The development of market and regulatory infrastructure will help contribute to efficient use of domestic savings and prudent interactions with global capital markets.

The first meeting will be held in early 2000. The Deputies will report back to the Ministers at the next JEC to be held later next year.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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Text as Prepared for Delivery
October 25, 1999

"China's Role in the 21st Century Global Economy"
Secretary of the Treasury Lawrence H. Summers
Remarks at Qinghua University School of Economics and Management
Beijing, China

Thank you, Vice-Dean Chen, for that kind introduction and Professor He for hosting my visit today. Let me say first how delighted I am, as a graduate of MIT, to come to the MIT of China. A very distinguished Qinghua graduate – Premier Zhu or perhaps here I should say Dean Zhu – probably put it the other way round when he visited MIT earlier this year. But either way, it is good to hear that the great minds of Beijing and Cambridge have been working together to educate leaders at your school of management for a market-driven future.

China's transition to an open market economy is unique. But China is not alone. The transformation that has been taking place here during the last two decades of this century has echoes around the world. Powerful forces are creating a new global economy for the 21st century: one that holds enormous opportunities for improving the lives of the world's people, but that also poses new challenges and risks.

Today I would like to reflect on these global trends, and their implications for China. I do so as someone who is a specialist in economics, not politics – as someone who recognizes that the long-term interests of both of our countries are well served through China's economic development.

I. Three Driving Forces Behind the New Global Economy

Many elements are building this new global economy. But three key trends are at its center.

First, revolutions in technology

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A recent cartoon in an American magazine depicted a small boy telling his friend that what he wanted to be when he grew up had not yet been invented. That captures some of the spirit of this new era. Modern advances in information technology, transportation, and communications are taking us to a post-industrial age, with profound implications for economies and societies.

In this new era:

- Brains matter more than brawn – how much you know matters more than how much you can lift.

- Innovation matters more than mass production – a product's value is measured not in pounds or kilos, but by the weight of ideas that went into making it.

- And information matters most of all – how easily it can travel through the economy and how well it is used.

Second, the spread of market forces

These technological changes, in turn, have helped to propel the second major development: the erosion of government economic controls and the spread of market forces.

It cannot be an accident that Soviet-style communism, planning ministries throughout the developing world, and large corporations run by command and control all ran into brick walls in the same decade and had to be restructured. Economic success means striking the right balance between, on the one hand, the central coordination of activity, and on the other, the motivation of individual talent and ideas. Shunning either of these entirely is never right. But new technologies have helped shift the balance between the two.

Increasingly, the balance of economic advantage has tilted firmly in favor of systems in which economic power and opportunities are more decentralized – and the skills and ideas of the individual are given greater weight. At the level of individual businesses and national economies, flexibility is winning out over rigid controls. And the capacity to respond to change is winning out over the capacity to dictate it.

Third, global integration

These two trends come together in the third and perhaps most spectacular aspect of the new global economy: one in which goods, capital, and information flow freely across the globe to the places where they will be most effective in spurring growth. Creating an environment where there is competition for capital is today a key to economic success – more than was ever the case in the past.

When history books are written 200 years from now about the last two decades of the 20th century, I am convinced that the end of the Cold War will be the second story. The first story will be about the appearance of emerging markets – about economies where more than three billion people live moving toward the market and seeing rapid growth in incomes. For the first time in human history, living standards for huge populations have quadrupled or more in a single generation.

This record of growth in emerging markets is an achievement, I would argue, whose importance in economic history can best be compared to the Industrial Revolution. For business, this means commercial opportunity on a huge scale. For governments it means managing in a single decade economic changes that might once have taken half a century. For the world's people – it is driving improvements in health, literacy, and nutrition that were unthinkable even two decades ago.

These lessons – the importance of technology, the centrality of market forces, the need for global integration, and the focus on flexibility in response to change – will be crucial components of economic success in the 21st century. Our own success in the United States in recent years has been predicated on just these factors: a culture that encourages entrepreneurship and technology; an economic environment that lets the market dictate outcomes; continuing market reforms that allow capital to find its most efficient use; and dramatic changes in our fiscal balance that have led to budget surpluses and reallocated trillions of dollars for private investment that otherwise would have been invested in the sterile asset of government paper. These lessons are also applicable to China's economy as it prepares to enter the next century.

II. Implications for the Chinese Economy

What China has achieved in 20 years of economic reform is truly remarkable:

- In 1978 Deng Xiaoping dreamed of doubling and redoubling China's GDP by 2000 – China passed that milestone earlier this decade, and has since exceeded it.

- China has risen to become the 11th largest trading nation in the world.

- Most important, 200 million fewer people in China now live in poverty – and every year, more than 450,000 fewer Chinese children die before reaching their fifth birthday than was the case 20 years ago.

These gains have come from a potent recipe: freeing labor from the land; tapping China's vast stock of human resources; and welcoming foreign capital, management, and technology into China. These policies have helped China quickly make up some of the economic ground it had lost relative to other economies earlier in this century. But catch-up, by definition, can only take an economy so far – and increasingly China seems to be coming up against diminishing returns.

National problems demand national solutions that respect national customs and practices: to overcome the enormous obstacles in its path, China needs to continue building a market economy that will work for China. But it also needs to build one that will succeed in today's global economy. And the laws of economics, like the laws of physics, cannot be repealed.

In that sense, China's core economic challenges are the same ones that every economy faces at the dawn of a new millennium: the need to build policies and institutions for a post-industrial age; the need to allow market forces to operate more freely; and the need to unleash the benefits of integration with the global economy for business and people.

1. Planting the Seeds of a New Chinese Economy

As President Jiang, Premier Zhu and others have recognized, the challenge for the next stage of China's transition is to find policies and institutions that will finally realize the full creative potential of the Chinese people, and will support innovation and investment over the long term – and over all of China:

- That means building the right intangible infrastructure for a modern market economy: including the rule of law, fair tax laws and enforcement; high levels of transparency; private ownership and free land markets; intellectual and physical property rights; independent courts that enforce laws and contracts; securities markets that deter fraud and protect investor rights; and social spending targeted to those really in need.

- That means support for institutions that can help bridge the gap between good ideas, on the one hand, and good products and services, on the other – the kind of gap that Qinghua's School of Economics and Management is working to fill.

- And most of all, perhaps, it means recognizing the enormous value of not merely an open market for products and services – but an open market in ideas.

Just as in the mass-based economy of the 20th century an effective system of transport was critical to a country's growth, as we enter the 21st century the free flow of ideas has become a prerequisite for economic success.

2. Letting Market Forces Operate

The second major challenge is to free this new economy from the weight of inefficient state-owned enterprises and a financial sector that expends vast amounts of resources supporting them.

What this will require, in China no less than in other transition economies, will be a fundamental change in the incentives facing managers of these enterprises. In the end, businesses will succeed when they face hard budget constraints on their activities – not the costly prop of continued state support.

Recognizing the seriousness of the problem, the Chinese government has made financial sector reform a high priority in recent years, and begun that challenging process. Promising recent steps include the reorganization of the People's Bank of China along regional lines to reduce local political pressure on supervisors, and the creation of asset management companies to deal with non-performing loans at state commercial banks.

3. Opening the way to a globally integrated economy

There has been considerable debate in recent months about whether the Chinese reform process is strong enough to withstand the effects of further opening China to the rigors of foreign competition. In light of global experiences in the 1990s, the more relevant question may be whether Chinese reforms can truly succeed without it.

One of the most impressive qualities of the leaders who have shaped China's economic reform process has been their recognition that a market transition can be powerfully supported by – indeed, will not be fully achieved without – opening China to the global economy, and all the capital, competition and new ideas that it can offer. In my meeting with Premier Zhu yesterday in Lanzhou, we engaged in a valuable and candid dialogue on the importance that each of our nations attach to China's accession to the World Trade Organization. While both sides have real and legitimate concerns that must be addressed in any negotiation over China's membership, we ultimately believe that the best framework for our trade relations with China would be the market-oriented and rules-based system of the WTO.

WTO accession would constitute an integral piece of China's effort to build on the economic progress it has made and promote openness and reform. This step would further integrate China into the dynamic world economy, contribute to a more stable and efficient business environment, and spur productivity gains as competition directs capital to its best available use.

The potential gains for America of an enhanced trading relationship with the world's most populous nation are also enormous – not only because it would provide sounder and surer access by U.S. manufacturers and service providers to China's markets, but also because by contributing to China's prosperity through the WTO, it would at the same time enhance the prosperity of the entire global economy.

In that context, if the United States and China can reach a satisfactory WTO accession agreement, the Administration will work hard with Congress to attain permanent normal trading relations for China.

Ultimately, a World Trade Organization cannot fully live up to the founders' intent if it does not include a country that is home to one-fifth of mankind. But it can do so only by setting standards that ensure that nations joining the WTO have firmly committed to its basic principles: commercial reciprocity and respect for international law.

III. Concluding Remarks

The economic principles for national success that I have described today are as difficult to implement as they are easy to state. In any country, there is a paradox in this moment: just as a new global economy creates more opportunity than ever before, it also brings more uncertainty. The challenge of crafting economic policy in these circumstances is one of balance:

- A balance between moving toward necessary objectives and maintaining stability along the way;

- A balance between responding to international global realities and upholding domestic traditions;

- And a balance between the virtues of competition as a motivator and driver of success and the importance of cohesion and cooperation as a source of strength for our societies.

Successfully striking these balances is a challenge for every country.

There is little doubt that continuing the important working relationship between the United States and China – a relationship that must be firmly grounded in mutual respect – will be critical to the shape and prosperity of the 21st century global economy. And yet, we should never forget that the ties that bind two economies together reach well beyond official meetings, like the one that has brought me to China today. The growing connectedness of our two countries also shines through on a business-to-business level – and the rising number of exchanges that take place person-to-person.

You have felt that growing connectedness firsthand in your collaboration with MIT. But you are not the only ones:

- An estimated 400,000 American jobs now depend on the business their companies do in China – in the past decade alone, our exports have quadrupled. And foreign direct investment has left American firms with $6.3 billion invested directly in China's economic success.

- Today, more than 100,000 Chinese students and scholars have had the opportunity to study in the United States. Thousands of American teachers and students have had the chance to come to China – and across China, Americans are also working with local governments, universities and citizens' groups on projects such as teaching poor rural women to read and hooking up schools to the Internet.

How China will define its greatness in the decades to come is a question only China can answer. But by working with China as it reforms and by expanding our areas of cooperation we know that we can advance shared Chinese and American interests and values. 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

IMMEDIATE RELEASE
ober 25, 1999

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Term:	91-Day Bill
Issue Date:	October 28, 1999
Maturity Date:	January 27, 2000
CUSIP Number:	912795DE8

High Rate: 4.995% Investment Rate 1/: 5.145% Price: 98.737

All noncompetitive and successful competitive bidders were awarded ırities at the high rate. Tenders at the high discount rate were ›tted 65%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 25,033,869	$ 7,723,869
Noncompetitive	1,338,116	1,338,116
PUBLIC SUBTOTAL	26,371,985	9,061,985 2/
Foreign Official Refunded	942,400	942,400
SUBTOTAL	27,314,385	10,004,385
Federal Reserve	4,272,815	4,272,815
Foreign Official Add-On	0	0
TOTAL	$ 31,587,200	$ 14,277,200

ledian rate 4.980%: 50% of the amount of accepted competitive tenders endered at or below that rate. Low rate 4.950%: 5% of the amount cepted competitive tenders was tendered at or below that rate.

o-Cover Ratio = 26,371,985 / 9,061,985 = 2.91

uivalent coupon-issue yield.
ards to TREASURY DIRECT = $1,017,653,000

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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

IMMEDIATE RELEASE
:ober 25, 1999

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Term:	182-Day Bill
Issue Date:	October 28, 1999
Maturity Date:	April 27, 2000
CUSIP Number:	912795DT5

High Rate: 5.115% Investment Rate 1/: 5.338% Price: 97.414

All noncompetitive and successful competitive bidders were awarded
ırities at the high rate. Tenders at the high discount rate were
ɔtted 61%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 21,281,020	$ 4,295,079
Noncompetitive	1,068,690	1,068,690
PUBLIC SUBTOTAL	22,349,710	5,363,769 2/
Foreign Official Refunded	2,641,200	2,641,200
SUBTOTAL	24,990,910	8,004,969
Federal Reserve	3,080,000	3,080,000
Foreign Official Add-On	0	0
TOTAL	$ 28,070,910	$ 11,084,969

Median rate 5.110%: 50% of the amount of accepted competitive tenders
:endered at or below that rate. Low rate 5.060%: 5% of the amount
:cepted competitive tenders was tendered at or below that rate.

:o-Cover Ratio = 22,349,710 / 5,363,769 = 4.17

ɾuivalent coupon-issue yield.
'ards to TREASURY DIRECT = $807,445,000

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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Text as Prepared for Delivery
October 26, 1999

Remarks by Deputy Secretary of the Treasury Stuart Eizenstat
Annual Conference of the Tax Executives Institute
Philadelphia, PA October 26, 1999

I am very happy to be here at your annual conference. There has always been a strong tie between TEI and Treasury. You give us important feedback on policies and procedures, and you have been especially helpful to us in the ongoing reorganization of IRS.

This conference is just one of an array of educational programs in every area of tax practice and policy your Institute organizes, both in Washington and in the states. It is the responsibility of your members to look at tax issues from the standpoint of your companies, their stockholders and their customers. It is our job to represent the national interest as we see it and as Congress has directed us. In many cases, our goals are consistent and we appreciate our partnership in these matters. The creative dialogue between us has been going on for a long time, and I hope it will continue.

I want first to touch on some issues of special importance to you. As you know, earlier this month the World Trade Organization issued a final decision holding that our foreign sales corporation regime constituted an impermissible export subsidy that violates two WTO agreements. The decision requires the withdrawal of the FSC tax exemption as of October 1, 2000. I share your disappointment with this decision. From the time we learned that the European Community might bring a case against the U.S. over our FSC rules, the Administration has committed substantial resources and done everything possible to defend these rules. Our strategy and legal positions have been developed with the involvement and advice of interested members of Congress and the private sector. We will continue to commit the resources necessary to evaluate the opinion and assess the prospect of an appeal and other available options. Our goal is a level playing field for United States companies. I appreciate and welcome any assistance that TEI can offer us in evaluating our options.

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Let me also just briefly discuss subpart F, which deals with the taxation of the income of U.S.-majority controlled foreign corporations. This part of the tax code provides that certain income of such corporations will be taxed currently as part of the income of the corporations' U.S. shareholders. As many of you know, Treasury has been working on a study of this area to determine whether subpart F is still fulfilling its original purposes, whether those purposes are still valid, and whether any recommendations for change should be made. This report should be released soon.

The taxation of foreign income is an important issue in an era of globalization. Our system has to strike the right balance. We should not impose inappropriate burdens on U.S. businesses when they invest abroad. But we should not unduly favor investment abroad, which may mean that domestic businesses and individuals will bear a greater tax burden. Once our study is published we hope that you, and others, will discuss with us ways to improve subpart F.

I should also mention that we are currently looking at the tax issues raised by new technologies and by new paradigms of conducting business, including of course the Internet and electronic commerce. These new technologies increase the distance across which a transaction can be easily and speedily conducted and have decreased the distance between producers and their ultimate customers, by reducing the need for intermediaries. The stakes in approaching these new issues are high. Forrester Research projects that on-line retail sales in the US should reach a staggering $185 billion by 2004. Although Forrester estimates that would be only seven percent of total retail sales in the US, state and local governments perceive this growth in electronic sales as a threat to their sales tax revenue base. At the same time, electronic commerce is spurring growth in the US and so the economic cost could be high if it were subject to discriminatory taxation here or abroad.

It is for these reasons that we supported the Internet Tax Freedom Act and its three-year moratorium on the imposition of discriminatory new taxes on the Internet. The Administration, for the same reasons, worked with our international trading partners to secure the temporary moratorium on the imposition of tariffs on telecommunications transmissions and seeks a permanent moratorium on tariffs on electronic transmissions for as long as possible.

Through our ongoing participation in the Federal Advisory Commission on Electronic Commerce and the Organization for Economic Cooperation and Development (OECD), we will continue to work toward ensuring that commerce conducted by these new means is not subject to discriminatory taxation and that any solutions adopted take account of the global nature and other special characteristics of this new commerce. Our view, endorsed by the OECD, is that any taxation of the Internet or electronic commerce be neutral, non-discriminatory, simple, certain, fair and flexible.

From the time the Sixteenth Amendment became part of the Constitution, eighty-six years ago, our national tax policy has reflected the nation's social goals and economic strategies. The first Revenue Act, passed in 1914, established the principle of progressive taxation-although the maximum individual rate was only seven per cent. The Revenue Act of 1932 was based on the assumption that a tax increase would stimulate the economy. In more recent decades, this goal was sought through tax cuts. Over the years, we have seen the tax laws used to encourage and discourage all manner of social and economic activities. Indeed, some of the fundamental issues we have faced as a nation—education and poverty, housing and health care, economic isolation or international involvement—have all presented themselves in the form of changes in the Code.

The Administration has set out four criteria by which we evaluate all tax policy proposals:

- Are they fiscally responsible?
- Do they promote fairness, especially for working families?
- Do they promote economic prosperity and growth, and
- Do they make it simpler for ordinary taxpayers to comply with the law?

Our commitment to the **first** criterion of fiscal responsibility should be very clear. Reducing the Federal budget deficit has been a centerpiece of this Administration's economic policy. We made difficult, and sometimes unpopular, choices in 1993 and 1997, and those choices--together with strong economic growth--have turned the unified budget deficit into a budget surplus. In 1992, the deficit was $290 billion and projected to rise; in 1998, the *surplus* was $69 billion, and tomorrow we will announce the surplus for the fiscal year just ended, which we project to exceed $115 billion.

Building on this remarkable achievement, the President has now set a higher standard: to balance the government's books excluding the surpluses generated by the Social Security system. In the Mid-Session Review of the Budget in June, the Administration presented a framework that dedicated the projected on-budget surpluses to four priorities: saving Social Security, reforming and modernizing Medicare, maintaining prudent levels of discretionary spending, and providing a large tax cut for retirement savings. Even after meeting these priorities, the framework left a balanced on-budget.

Today the President will submit legislation to Congress to implement this plan, and he has emphasized his desire to work with Congress to pass this legislation. The proposal would protect the Social Security surpluses, make transfers to Social Security equal to the interest savings from debt reduction achieved by locking away the Social Security surpluses, and reserve one-third of the on-budget surplus over the next 10 years for Medicare. The bill would also extend the discretionary caps and pay-as-you-go budget enforcement rules.

The President's budget framework would pay off the federal debt by 2015, helping to spur economic growth and keep interest rates down. It would extend the solvency of both Social Security and Medicare. And it would provide the crucial government services on which the American people depend—without the budget gimmicks and the potentially damaging across-the-board spending cuts being proposed.

The across-the-board cut now being discussed sounds like a fairly small change. But it would reduce the number of military personnel in the current fiscal year by 39,000; the number of women, infants and children who receive food assistance from the WIC program by 100,000; and the number of children in the Reading Excellence program by 14,000. Moreover, if one rejected all budget gimmicks, such as labeling the 2000 Census an "emergency," the across-the-board cut needed to balance the on-budget in their plan would be over 6 times as large.

Thus, as the budget process continues this fall, the Administration will continue to focus on these issues:

- the importance of protecting the Social Security surplus *and* extending the solvency of Social Security;
- the importance of devoting part of the projected on-budget surpluses to Medicare reform rather than an unaffordable tax cut;
- and the importance of an honest and disciplined approach to federal budgeting.

The **second** test, fairness or equity, has long been recognized as an important tax policy goal. The purpose of a tax system is to raise revenue in a fair and equitable way. It is vital to any tax system, but particularly to a voluntary one like ours, that revenue be raised in a fair way; that it be perceived as being administered in that way and that the tax base be protected from avoidance and evasion. In that connection, I want to commend Commissioner Rossotti and the IRS for all they are doing to comply with the directives of Congress in the IRS Restructuring and Reform Act of 1998, in making the Service more responsive to the needs of the taxpayer.

It is not difficult to determine which of the proposals currently under discussion meet the test of fairness. The Earned Income Tax Credit certainly does. It entered the Code during the Ford Administration, but was greatly strengthened by the 1993 Act. The EITC reduces the burden of Federal taxes for 20 million low and moderate-income working families. In 1998, it lifted 4.3 million persons above the poverty line. The proposal made recently to delay EITC payments next year fails the fairness test. In order to help avoid a fiscal 2000 deficit it would impose an unfair tax increase on up to 20 million working families who expect to receive the full amount of the credit when they file next winter and spring. No other group of taxpayers is being asked to delay receipt of their tax refund.

The proposed long-term care credit in the President's budget meets the test of fairness. It is available to people who must pay out a large portion of their income because they are incapacitated and also to people who are primary caregivers for someone in their families, and who forgo the opportunity for other income in order to care for them. Two million taxpayers-most of whom are elderly-would benefit from this proposal. An above-the-line deduction for individually purchased health insurance fails the test.

Larger benefits would accrue to high-income taxpayers most able to afford insurance. A disproportionate number of low-income workers have no health insurance, and would gain nothing from this proposal.

Any proposed increases in tax incentives for retirement savings must also meet the test of basic fairness. Our tax preference for pensions is designed to encourage retirement benefits for moderate and lower-income families, who need them most to supplement their Social Security benefits. Proposals to raise the maximum dollar limits for pension contributions, whether by employer or employee, fail that test. These initiatives -- and related proposals to weaken anti-discrimination and top-heavy safeguards that protect lower- and middle-income Americans -- represent a regressive, "trickle down" approach that could actually lead to reduced retirement benefits for millions. The fair alternatives are incentives-- based, for example, on the President's universal savings accounts proposal -- that are targeted to the segment of our work force that needs it most.

Third is prosperity and economic growth. No tax initiative has done more in recent years to promote these goals than the R&E tax credit. It underpins the technology sector, which has been responsible for creation of the majority of the new jobs in our economy in recent years. It needs to be extended. Measures to encourage retirement savings, such as our proposed new USA accounts, would increase savings, making more funds available for private investment, and spurring growth.

Our prosperity is also enhanced to the extent that investment decisions are based on business considerations, not tax considerations. In that connection, as Secretary Summers told you last March, curbing corporate shelters is a high priority at Treasury and within the Administration. The recent proliferation of shelters undermines the integrity of, and poses a significant threat to, our self-assessment tax system. We are pleased with the recent court decisions in the Compaq and Winn-Dixie cases. They confirm a central judgment we made in preparing our corporate tax shelter proposals— that a strong, coherent economic substance doctrine is critical in addressing these transactions. Litigation, however, is an inefficient and expensive tool to deal with this problem. Significant resources are being expended to address and combat these transactions. Our budget proposals -- by codifying the economic substance doctrine, requiring advance disclosure of these transactions, and increasing penalties on both participants and promoters -- properly ensure that taxpayers do not ignore the need for meaningful economic substance in analyzing potential transactions before engaging in them. Our Corporate Tax Shelter White Paper took up many of the concerns that had previously been raised regarding our proposals. We look forward to working with TEI on this important problem and would welcome the opportunity to speak with any of you regarding remaining concerns you may have.

Simplicity is our **fourth** tax policy goal. Clear and simple tax rules foster respect for our tax system. They facilitate voluntary compliance and improve the ability of the IRS to administer the Code. The more complex a rule, the less likely it is to be applied and enforced. The Administration's budget this year advanced simplification by proposing to extend for two years a provision effective in 1998 which allows personal credits to offset the tentative Alternative Minimum Tax. This will save about 960,000 taxpayers from having their personal credits reduced, and millions more taxpayers having to undertake complex calculations to determine if they come under AMT. The increased exemption of up to $500,000 in capital gains on home sales, written into law in 1997, ensured that 99 percent of homeowners will not have to pay capital gains on the sale of their home.

Other provisions of the 1997 Act ensured that over 95 per cent of corporations will not have to worry about the alternative minimum tax; and that children claimed as dependents on their parent's return need not file a tax return simply because they have a modest amount of unearned income. This will relieve over one million children from the burden of filing. And as part of the ongoing effort to restructure the IRS, we have made significant progress in increasing the use of electronic filing, which simplifies tax preparation and filing for taxpayers, reduces errors and the need for subsequent follow-up by the Service, and reduces IRS processing costs. This year, 25 per cent of all returns were filed electronically, an increase of nearly 5 million over last year.

I appreciate the opportunity to state our principles of tax policy and some of the measures we propose to carry them out. They are part of the agenda for negotiation and resolution in Washington both this fall and next year. They will also, I am sure, be the subjects of debate and discussion at the many meetings this organization will hold in the future. I am glad to have had this chance to talk to you about them today and we will continue to seek your help and support as much as possible in the months ahead.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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Weekly Release of U.S. Reserve Assets

October 26, 1999

The Treasury Department today released U.S. reserve assets data for the week ending October 22, 1999.

As this table indicates, U.S. reserve assets totaled $73,930 million as of October 22, 1999, up from $73,795 million as of October 15, 1999.

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

1999 *Week Ending*	Total Reserve Assets	Gold Stock [1/]	Special Drawing Rights [2/]	Foreign Currencies [3/] ESF	Foreign Currencies [3/] SOMA	Reserve Position in IMF [2/]
October 15, 1999	**73,795**	11,046	10,290	16,342	16,345	19,772
October 22, 1999	**73,930**	11,046	*10,339*	16,338	16,341	*19,865*

Gold stock is valued monthly at $42.2222 per fine troy ounce. Values shown are as of August 31, 1999. The July 31, '9 value was $11,048 million.

SDR holdings and the reserve position in the IMF are based on IMF data and valued in dollar terms at the official R/dollar exchange rate. Consistent with current reporting practices, IMF data for October 15, 1999 are final. Data for R holdings and the reserve position in the IMF shown as of October 22, 1999 (in italics) reflect preliminary adjustments :he Treasury to the October 15, 1999 IMF data.

Includes holdings of the Treasury's Exchange Stabilization Fund (ESF) and the Federal Reserve's System Open Market ount (SOMA). These holdings are valued at current market exchange rates or, where appropriate, at such other rates as ' be agreed upon by the parties to the transactions.

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Text as Prepared for Delivery
October 27, 1999

**TREASURY INTERNATIONAL TAX COUNSEL PHILIP R. WEST
TESTIMONY BEFORE THE SENATE COMMITTEE ON FOREIGN RELATIONS**

Mr. Chairman and members of the Committee, I am pleased today to recommend, on behalf of the Administration, favorable action on eight bilateral tax treaties and protocols that the President has transmitted to the Senate and that are the subject of this hearing. These agreements would provide significant benefits to the United States, as well as to our treaty partners. Treasury appreciates the Committee's interest in these agreements as demonstrated by the scheduling of this hearing, and requests that the Committee and the Senate take prompt and favorable action on all of these agreements.

The treaties and protocols before the Committee today represent a cross-section of the United States tax treaty program. There are new agreements with three of our oldest treaty partners -- new income tax treaties with Denmark and Italy and a protocol to our estate tax treaty with Germany -- and five agreements -- with Estonia, Latvia, Lithuania, Slovenia and Venezuela -- expand our treaty network in Latin America, Eastern Europe, and the former Yugoslavia.

An active treaty program is important to the overall international economic policy of the United States, and tax treaties have a substantial positive impact on the after-tax profitability of United States businesses that enter a treaty partner's marketplace. This is an obvious incentive to expand our treaty network to new treaty partners. However, it also requires us to update our existing treaties. When President Clinton took office, many important U.S. tax treaties were nearly half a century old. Since the beginning of 1993, we have replaced our tax treaties with Sweden, which dated from 1939, with the Netherlands, which dated from 1948, with Ireland, which dated from 1949, and with Switzerland, which dated from 1951. The Denmark treaty, which you are considering today, will replace the oldest of our income tax treaties still in force, which was signed in 1948.

For these reasons, negotiating new treaties and updating existing treaties take up a large amount of my staff's time. We believe, however, that the investment of our resources is

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worthwhile because of the benefits a modern treaty network brings both to taxpayers and to the government. I'd like to speak now about these benefits.

Benefits to Taxpayers

An income tax treaty removes impediments to international trade and investment by reducing the threat of "double taxation" that can occur when both countries impose tax on the same income. Four different aspects of this general goal illustrate the point. First, an income tax treaty generally increases the extent to which exporters can engage in trading activity in the other country without triggering tax. Second, when taxpayers do engage in a sufficient amount of activity for tax to be imposed, the treaty establishes rules that assign to one country or the other the primary right of taxation with respect to an item of income, that help ensure the allowance of appropriate deductions and that reduce withholding tax on payments of income to the treaty beneficiary. Third, the treaty provides a dispute resolution mechanism to prevent double taxation that sometimes can arise in spite of the treaty. Finally, the treaty helps to create stability of tax rules that the private sector needs if its member are to be confident in their projections of an investment's return.

Although the domestic tax legislation of the United States and other countries in many ways is intended to further the same general objectives as our treaty program, a treaty goes beyond what domestic legislation can achieve. Legislation cannot easily take into account differences among other countries' rules for the taxation of particular classes of income and how those rules interact with United States law. Legislation also cannot reflect variations in the United States' bilateral relations with our treaty partners. A treaty, on the other hand, can make useful distinctions, and alter in an appropriate manner the domestic statutory law of both countries as it applies to income flowing between the treaty partners. Examples in the treaties before you include reductions in statutory withholding tax rates and the creditability of the Italian tax known as the IRAP.

One of the principal ways in which double taxation is eliminated is by assigning primary taxing jurisdiction in particular factual settings to one treaty partner or the other. In the absence of a treaty, a United States company operating a branch or division or providing services in another country might be subject to income tax in both countries on the income generated by such operations. The resulting double taxation can impose an oppressive financial burden on the operation and might well make it economically non-viable.

For example, lesser developed countries frequently assert much broader taxing jurisdiction than the United States does. In the absence of a treaty, they might well tax a foreign corporation on income from business activities even if the activities conducted in the other country are relatively negligible or, in some cases, if the payor of the income is a resident of the developing country without regard to whether any activities take place within its territory. In many cases, the country will not allow the foreign corporation to deduct business expenses relating to such income. Finally, the foreign corporation may not be able to plan its activities in such a way as to avoid the tax because the rules that establish the taxation threshold under the country's domestic laws may not be clear. If the economic activities that give rise to the income take place in the United States, we would view the income as being from U.S. sources. In cases where a foreign corporation taxes income that we view as U.S.-source, the effect of the U.S. tax rules may be to deny a foreign tax credit in whole or in part (depending on the U.S. corporation's overall foreign tax credit situation).

Tax treaties help to resolve these situations by establishing the minimum level of economic activity that a resident of one country must engage in within the other before the latter country may tax the resulting business profits. The tax treaty lays out ground rules providing that one country or the other, but not both, will have primary taxing jurisdiction over branch operations and individuals performing services in the other country. In general terms, the treaty provides that if the branch operations have sufficient substance and continuity and, accordingly, sufficient economic penetration, the country where the activities occur will have primary (but not exclusive) jurisdiction to tax. In other cases, where the operations are relatively minor, the home country retains the sole jurisdiction to tax.

Under these treaty rules, United States manufacturers may test a market by establishing a foreign presence through which products are sold without subjecting themselves to foreign tax, including compliance, rules. Generally, if the market proves promising, the company will establish a more substantial operation which would become subject to tax in the other country. Similarly, United States residents generally may live and work abroad for short periods without becoming subject to the other country's taxing jurisdiction; if they stay longer, however, they would become subject to tax on the income derived in the other country or, ultimately, might even become subject to taxation as residents. These rules, the permanent establishment and business profits rules and analogous provisions for individuals, not only eliminate in many cases the difficult task of allocating income and tax between countries but also serve to encourage desirable trade activities by eliminating or reducing what can often be complex tax compliance requirements.

High withholding taxes at source can be an impediment to international economic activity. Under United States domestic law, all payments to non-United States persons of dividends and royalties as well as certain payments of interest are subject to withholding tax equal to 30 percent of the gross amount paid. Inasmuch as this tax is imposed on a gross rather than net amount, it imposes a high cost on investors receiving such payments. Indeed, in many cases the cost of such taxes can be prohibitive as a 30 percent tax on gross income often can exceed 100 percent of the net income. Most of our trading partners impose similar levels of withholding tax on these types of income. Tax treaties alleviate this burden by reducing the levels of withholding tax that the treaty partners may impose on these types of income. In general, United States policy is to reduce the rate of withholding taxation on interest and royalties to zero. Dividends normally are subject to tax at one of two rates, 15 percent on portfolio investors and 5 percent on direct corporate investors. The extent to which we realize our policy of reducing withholding rates depends on a number of factors. Although generalizations often are difficult to make in the context of complex negotiations, it is fair to say that we are more successful in reducing these rates with countries that are relatively developed and where there are substantial reciprocal income flows. We also achieve lesser but still significant reductions with countries where the flows tend to be disproportionately in favor of the United States.

The benefits of tax treaties are not limited to business profits earned by companies. Treaties remove tax impediments to desirable scientific, educational, cultural and athletic interchanges, facilitating our ability to benefit from the skills and talents of foreigners including world-renowned rock stars, symphony orchestras, astrophysicists and Olympic athletes. In fact, treaty benefits are not limited to profit-making enterprises but extend to pension plans, Social Security benefits, charitable organizations, researchers and alimony and child support recipients.

The rules provided in the treaty frequently do not explicitly address every future development. This may be because the international community has not yet reached a consensus on the appropriate standard for taxation. For example, the international community may take some time to reach a consensus on the appropriate taxation standard with respect to the area of communications technology. This is an area in which international cooperation is vitally important. To address these issues, our proposed treaties with Estonia, Latvia and Lithuania. require the parties to consult within five years after the treaties enter into force concerning the taxation of income from new technologies. This period was chosen because of the possibility that an international standard might emerge within that time that both Contracting States would want to consider adopting. In fact, the Organization for Economic Cooperation and Development ("OECD"), recognized as the leading international forum to consider developments such as these, is considering these issues today. Until resolution is reached, the treaties with the Baltic countries provide that income of a resident of one country from transmission by satellite, cable, optic fiber and similar technologies will not be taxable in the other country unless the resident has a permanent establishment in the other country. We rejected an approach that would have taxed this income like a royalty, subject to withholding.

Even with constant monitoring, there will be cases in which double taxation occurs in spite of the treaty. In such cases, the treaty provides mechanisms enabling the tax authorities of the two governments -- known as the "competent authorities" in tax treaty parlance -- to consult and reach an agreement under which the taxpayer's income is allocated between the two taxing jurisdictions on a consistent basis, thereby preventing the double taxation. The U.S. competent authority under our tax treaties is the Secretary of the Treasury. Currently, that function is delegated to the Assistant Commissioner (International) of the Internal Revenue Service.

One of the most common situations in which this type of agreement may be necessary is in the area of "transfer pricing." If a multinational manipulates the prices charged in transactions between its affiliates in different countries, the income reported for tax purposes in one country may be artificially depressed, and the tax administration of that country will collect less tax from the enterprise than it should. In theory, the multinational would plan its transactions to ensure that its income is reported in the jurisdiction with the lowest effective tax rate. It is this possibility that makes transfer pricing one of the most important international tax issues.

If this potential tax avoidance (and the potential for double taxation) is to be avoided, it is necessary to have a benchmark by which to evaluate the prices charged. The benchmark adopted by the United States and all our major trading partners is the arm's-length standard. Under the arm's-length standard, the price charged should be the same as it would have been had the parties to the transaction been unrelated to one another -- in other words, the same as if they had bargained at "arm's-length." This requires an analysis of the functions performed, resources employed and risks assumed by each party, to make sure each party is adequately compensated for those functions, resources and risks in light of the contractual terms and other relevant economic circumstances of the transaction. If taxpayers and tax administrators can find similar transactions that took place between unrelated parties, they begin the inquiry by analyzing those transactions to see whether the functions, resources and risks of each party are comparable to those in the related party transaction.

In more and more cases, it is difficult or impossible to find a uniquely comparable transaction. This may be because the transactions between related parties are highly specialized or involve unique intangibles, or, as in the case of certain kinds of global securities trading, the functions are so highly integrated that there is a single profit center and no transactions are ever booked between the separate entities. In those cases, it will not be possible to apply "traditional transactional methods." Instead, taxpayers and tax administrators will have to perform the functional analysis required by the arm's-length approach, but will use transactional profits methods, such as the comparable profits method or the profit-split method, in order to compensate the entities for the functions performed, resources employed and risks assumed. The Internal Revenue Service developed transactional profits methods in the 1980's because it saw that it would not always be possible to use traditional transactional methods. These methods, including the use of multi-factor formulas in appropriate cases, were found by the OECD to be an acceptable application of the arm's length standard, at least as a method of last resort, in the Transfer Pricing Guidelines issued in 1995 and its report on Global Trading of Financial Instruments in 1998. We have seen, and expect to continue to see, increasing acceptance of these profits-based approaches in the coming years, speeded by the increase in globally-integrated businesses that will become possible as a result of improvements in telecommunications technology.

Perhaps because of globalization, there has also been an increased focus in recent years on the taxation of branches (known as "permanent establishments"). Treaties use the same arm's length standard to determine the profits attributable to a permanent establishment. Many of the legal developments that have occurred in the context of the taxation of separate legal entities, however, have not yet been extrapolated to the branch situation. Because the commentaries to the relevant parts of the OECD model tax treaty have not yet been revised to reflect current thinking regarding profit splits, taxpayers have taken inconsistent approaches in the context of permanent establishments. One recent court case suggests that it is not possible to use profits-based methods in determining the business profits attributable to a permanent establishment, and that the tax administrator is required to respect the income shown on the books of the branch, except in "exceptional circumstances," a much higher standard than applies when adjusting the income of separate legal entities. A more recent case would allow the administrators to adjust the branch books to reflect an arm's length result, but does not provide any guidance on how that is to be accomplished.

We believe that an international consensus eventually will develop around the proposition that any of the methods that are acceptable for transfer pricing between related entities will also be acceptable in the context of allocating income between branches of a single entity. The United States has already adopted this approach in the context of global dealing of financial instruments, both in advance pricing agreements and by regulation, as has the OECD in its report on Global Trading in Financial Instruments. It has done so by sanctioning the use of multi-factor formulas to allocate income from global trading activity under one common trading model -- the "functionally fully-integrated" model.

Prevention of Tax Avoidance and Evasion

The foregoing aspects of our tax treaties involve benefits to taxpayers. While providing these benefits certainly is a major purpose of any tax treaty, it is not the only purpose. The second major objective of our income tax treaty program is to prevent tax avoidance and evasion and to ensure that treaty benefits flow only to the intended recipients. Tax treaties achieve this objective in several ways. They provide for exchange of information between the tax authorities. They contain provisions designed to ensure that treaty benefits are limited to *bona fide* residents of the other treaty country and not to "treaty shoppers." And two of the treaties before you reflect one version of an anti-abuse rule that set limits on aggressive tax avoidance transactions using treaties.

Under the tax treaties, the competent authorities are authorized to exchange information, including confidential taxpayer information, as may be necessary for the proper administration of the countries' tax laws. This aspect of our tax treaty program is one of the most important features of a tax treaty from the standpoint of the United States. The information that is exchanged may be used for a variety of purposes. For instance, the information may be used to identify unreported income or to investigate a transfer pricing case. In recent years information exchange has become a priority for the United States in its tax treaty program. If a country has bank secrecy rules that prevent or seriously inhibit the exchange of information under the tax treaty, we will not conclude a treaty with it. In fact, we generally do not even negotiate with such countries. Information exchange is one of the handful of issues that we discuss with the other country before beginning formal negotiations because it is one of a very few issues that we consider non-negotiable. This has, of course, prevented us from entering into treaties with some countries with which we have significant economic ties, but we believe that it is the right policy.

Recent technological developments which facilitate international, and anonymous, communications and commercial and financial activities can also encourage illegal activities. Over the past several years we have experienced a marked and important sea change as many of the industrialized nations have recognized the increasing importance of tax information exchange;

the absence thereof serves to encourage not only tax avoidance and evasion, but also criminal tax fraud, money laundering, illegal drug trafficking, and other criminal activity. Treasury is proud of the role it has played in moving these issues forward not only in our bilateral treaty negotiations but also in other fora such as the OECD.

A second aspect of U.S. tax treaty policy to deal with avoidance and evasion is to include in all treaties comprehensive provisions designed to prevent "treaty shopping." This abuse of the treaty can take a number of forms, but it generally involves a resident of a third state that has either no treaty with the United States or a relatively unfavorable one establishing an entity in a treaty partner that has a relatively favorable treaty with the United States. This entity is used to hold title to the person's United States investments, which could range from portfolio stock investments to major direct investments or other treaty-favored assets in the United States. By placing the investment in the treaty partner, the third-country person is able to withdraw the returns from the United States investment subject to the favorable rates provided in the tax treaty, rather than the higher rates that would be imposed if the person had invested directly into the United States. Of course, the tax imposed by the treaty partner on the intermediate entity must be relatively low, or the structure will not produce tax savings that justify the added transaction costs.

This Committee and the Congress have expressed strong concerns about treaty shopping, and the Treasury Department shares those concerns. Our treaty program is designed to give benefits to residents and, if applicable, nationals of our treaty partner. Treaty shopping represents an abusive attempt to siphon benefits to others. Moreover, if treaty shopping is allowed to occur, then there is less incentive for the third country with which the United States has no treaty to negotiate a treaty with the United States. The third country can maintain inappropriate barriers to United States investment and trade, and yet its companies can obtain the benefits of lower U.S. tax by organizing their United States transactions so that they flow through a country with a favorable United States tax treaty.

For these reasons, the United States has taken a leading role in developing anti-treaty-shopping provisions and encouraging other countries to adopt the provisions in their treaties. The Department of the Treasury has included in all its recent tax treaties comprehensive "limitation on benefits" provisions that limit the benefits of the treaty to *bona fide* residents of the treaty partner. These provisions are not uniform, as each country has its own characteristics that make it more or less inviting to treaty shopping in particular ways. Consequently, each provision must to some extent be tailored to fit the facts and circumstances of the treaty partners' internal laws and practices. Moreover, the provisions need to strike a balance that avoids interfering with legitimate and desirable economic activity.

As we have pursued our goal of updating our existing treaties to eliminate treaty-shopping abuses, however, we have seen an increasing number of other types of transactions that seek to use treaties to achieve inappropriate results. Therefore, we have decided to include in our treaties relatively modest anti-abuse rules in addition to the limitation on benefits provision. In the treaties before you, these rules are found only in the treaties with Italy and Slovenia, because the others were substantially negotiated before this change in our policy.

As described above, anti-treaty shopping rules are now firmly entrenched in our treaty policy, in part as a result of concerns raised by the Committee. The anti-abuse rules before you are complementary to these anti-treaty shopping rules. Anti-treaty shopping rules take the broad approach of denying all treaty benefits to persons who are not bona fide residents of the treaty country. Anti-abuse rules such as those before you are more targeted in the sense that they are not blanket exclusions from all treaty benefits; they deny specific treaty benefits in abuse cases.

These rules have been included in our treaties because of several concurrent developments in international tax law. First, although the overwhelming majority of taxpayers who avail themselves of treaty benefits are entitled to those benefits and are not engaged in abusive transactions, aggressive abuse of treaties has increased. As evidence of this trend one need only observe that Congress has twice in recent years taken the unusual step of legislating against treaty abuse. Most recently, Congress enacted section 894(c) to deny benefits to certain taxpayers that are not excluded from our treaties under limitation on benefits provisions. Congress also enacted section 7701(l), providing the Treasury with a broad grant of regulatory authority to curb treaty abuse. This authority has been exercised to adopt a standard very similar to that under consideration by you today, under which taxpayers have been operating for some years now, apparently without significant difficulty. (The commentary to Article 1 of the OECD model tax treaty and the OECD Report on Harmful Tax competition make clear that countries can impose their domestic anti-abuse rules to claims for treaty benefits.)

A second development contributed to the decision to include these rules in our treaties. We observed that Italy had just concluded a treaty containing a broader but more subjective anti-abuse rule. We then observed that virtually all of the other countries with which we were negotiating at the time either had treaty anti-abuse precedents generally consistent with the rule you have before you (the United Kingdom, Chile and Korea) or, in the case of Canada, had already included in its treaty with the United States an explicit recognition of the right to apply a similar anti-abuse rule that was in force under its domestic law. In addition, other countries such as Ireland and Mexico had agreed to a similar provision with each other and other countries such as Israel were consistently seeking even broader provisions. The rule has been included in more than 50 treaties, representing approximately 40 different countries (including 10 OECD members). In fact, concerns about the adequacy of current treaty rules to prevent abuses have stimulated work in the OECD on this subject. As one of the more common approaches to achieving such an objective, rules such as those before you today are obviously part of that work.

The increase in treaty abuse has unfortunate results for both Treasury and our taxpayers: it requires Treasury to divert resources to fighting abuse that it might otherwise devote to improving our treaty network. The emergence internationally of anti-abuse rules such as those before you provides a win-win solution. They help address the abuse problem, while at the same time freeing up Treasury resources to provide greater benefits for U.S. taxpayers. As such, the question became not whether an anti-abuse rule was appropriate, but which anti-abuse rule was appropriate. Treasury rejected a narrower anti-abuse rule because of its ineffectiveness. Treasury also rejected a broader more subjective anti-abuse rule for several reasons. First, it provided a less certain standard against which a taxpayer could meaningfully evaluate its transaction. Second, since the narrower rule before you appears in a significant number of treaties around the world, and promises to appear in more, it is more consistent with international norms and will likely be the subject of more interpretive law than the other standards.

As such, the proposed rule should provide greater certainty over time than some of the alternatives. Nevertheless, we are aware of concerns that the proposed anti-abuse rules will provide uncertainty for taxpayers. The test incorporated in the rule does require taxpayers and their advisors to make some judgements. This standard creates no more uncertainty, however, than other U.S. tax doctrines that may also apply to the transaction under consideration, such as the business purpose and step transaction doctrines. And, as the commentary to the OECD model treaty makes clear, even if our treaties are silent regarding abuse, other countries may apply their own internal anti-abuse doctrines to U.S. taxpayers' claims for treaty benefits, whether we have explicitly agreed to those standards or not.

Our treaties are intended to last decades before re-negotiation. Therefore, relying on treaty amendments to eliminate abuses that arise in the future will invariably prove inadequate. Moreover, relying on amendments to domestic law will invite charges that the treaty is being overridden, as were made when section 894(c) was enacted. For these reasons, the treaties should contain their own mechanisms to combat abuse, such as the provisions in the treaties before you today. In this regard, it is important to keep in mind that our tax treaties contain only benefits for taxpayers, and no provisions that increase tax burdens. As such, it is appropriate to impose reasonable limits on those benefits to curb abusive transactions that may be developed in the future.

Treaty Program and Negotiation Priorities

Given all of these benefits to taxpayers and the government, an obvious question is why we do not have a tax treaty with every country. The answer is slightly different for each potential treaty partner, but there are some general themes. In establishing priorities, we keep in mind the two principal objectives of tax treaties -- to prevent both double taxation and tax avoidance and evasion.

The United States has a network of 50 bilateral income tax treaties, the first of which was negotiated in 1939. Although that number is somewhat lower than the number of treaties that some other countries have, it is important to note that the network includes all 28 of our fellow members of the OECD and covers the vast majority of trade and investment by U.S. companies abroad. For the past decade, the Treasury Department has given priority to renegotiating older treaties to ensure that they reflect current United States treaty policy, particularly with respect to anti-abuse provisions and information exchange.

As demonstrated by the mix of treaties being considered today, the progress we have made at updating old conventions has given us the opportunity to focus on expanding our treaty network. In this, our primary concern is to conclude treaties or protocols that are likely to provide the greatest benefits to United States taxpayers, such as when economic relations are hindered by substantial tax obstacles. We meet regularly with members of the U.S. business community regarding their priorities and the practical problems they face with respect to particular countries. We are proud of our efforts in the treaty area, and believe that our record of accomplishment here is as strong as that of any other administration in recent memory.

Even when business identifies problems that could be resolved by treaty, however, a treaty may not be appropriate for a variety of reasons. Despite the protections of the limitation on benefits provisions and anti-abuse rules, there may be countries with which we choose not to have a tax treaty because of the possibility of abuse. Other countries may not present us with sufficient tax problems that are best resolved by treaty. For example, we generally do not conclude tax treaties with jurisdictions that do not impose significant income taxes, because there is little danger of double taxation of income in such a case. In such cases, particularly with Caribbean Basin countries, we have offered to enter into an agreement limited to the exchange of tax information, which furthers the goal of reducing tax avoidance and evasion without creating other opportunities for abuse.

However, the situation can become more complex when a country adopts a special regime for certain parts of the economy while the rest of its residents are subject to substantial taxation. It might be considered inappropriate to grant treaty benefits to companies taking advantage of such regimes, while a treaty relationship might be useful and appropriate in order to avoid double taxation in the case of the residents who are subject to substantial taxation. Accordingly, in some cases we have devised treaties that carve out from the benefits of the treaties certain residents and activities. The anti-treaty shopping provisions in our treaty network prevent investors from enjoying the benefits of a tax-haven regime or preferential tax regime in their home country and, at the same time, the benefits of a treaty between the United States and another country. The recent OECD report on Harmful Tax Competition recommends that member countries adopt similar policies, and not enter into tax treaties with tax havens. The report also directed the group within the Committee on Fiscal Affairs that is responsible for the OECD Model treaty to consider various additions to the Model that are intended to prevent abuse of tax treaties.

Prospective treaty partners also have to indicate that they understand their obligations under the treaty, including with respect to information exchange, and demonstrate that they are able to comply with those obligations. Sometimes they are unable to do so. In other cases we may feel that a treaty is inappropriate because a treaty partner may be unwilling to deal with the tax problems that have been identified by business. Lesser developed and newly emerging economies, where capital and trade flows are often disproportionate or virtually one-way, may not be willing to reduce withholding taxes to a level that will eliminate double taxation because they feel that they cannot give up scarce tax revenues. None of the new treaties that we have asked you to consider today are in that class. All are with countries that showed a willingness to reduce or eliminate withholding taxes or other impediments to investment.

Most of the emerging economies with which we have had successful treaty discussions -- including those whose treaties we present today -- have been active participants in the training and outreach programs run by the Treasury Department, the Internal Revenue Service and the OECD. These programs are a wise investment as they help to ensure that all parties understand the international norms that are represented by these agreements. We have every reason to believe that these programs will continue to increase the number of countries -- particularly in Eastern Europe and Latin America -- that are ready to enter into mutually advantageous treaties with us. In many cases, the existence of a treaty that lowers taxation of trade and investment will help to establish economic ties that will contribute to the country's stability and independence, as well as improve its political relationships with the United States.

The primary constraint on the size of our treaty network, however, may be the complexity of the negotiations themselves. The various functions performed by tax treaties, and particularly the goal of meshing two different tax systems, makes the process of negotiation quite time-consuming.

A nation's tax policy, as reflected in its domestic tax legislation as well as its tax treaty positions, reflects the sovereign choices made by that country in the exercise of one of its most important governmental functions, that of funding the government. Numerous features of the treaty partner's unique tax legislation and its interaction with United States legislation must be considered in negotiating an appropriate treaty. Examples include whether the country eliminates double taxation through an exemption or a credit system, whether the country has bank secrecy legislation that needs to be modified by treaty, the treatment of partnerships and other transparent entities, and how the country taxes contributions to pension funds, the funds themselves and distributions from the funds. A negotiated treaty needs to take into account all of these and many other aspects of the treaty partner's tax system in order to arrive at an acceptable treaty from the perspective of the United States. Accordingly, a simple side-by-side comparison of two actual treaties, or of a proposed treaty against a model treaty, will not enable meaningful conclusions to be drawn as to whether a proposed treaty reflects an appropriate balancing of interests. In many cases the differences are of little substantive importance, reflecting language problems, cultural obstacles or other impediments to the use of particular U.S. or OECD language.

In addition to keeping in mind that each treaty must be adapted to the individual facts and circumstances of each treaty partner, it also is important to remember that each treaty is the result of a negotiated bargain between two countries that often have conflicting objectives. Each country has certain issues that it considers non-negotiable. The United States, which insists on effective anti-abuse and exchange-of-information provisions, and which must accommodate its uniquely complex internal laws, probably has more non-negotiable issues than most countries. For example, each of the full treaties before the Committee today allows the United States to impose our branch profits tax and branch-level interest tax at the rates applicable to direct dividends and interest, respectively, paid to related parties. All of them also reflect our new policy with respect to dividend distributions from real estate investment trusts, except for the treaties with Estonia, Latvia and Lithuania, which were fully negotiated before the change in policy. They also include the "saving clause", which permits the United States to tax its citizens and residents as if the treaty had not come into effect, and allow the United States to apply its rules dealing with former citizens and long-term residents and with investments in U.S. real property interests.

Obtaining the agreement of our treaty partners on these issues sometimes requires other concessions on our part. Similarly, other countries sometimes must make concessions to obtain our agreement on issues that are critical to them. Eventually, the process of give-and-take produces a document that is the best treaty that is possible with that other country. In many cases, the process ends there, as the Administration decides that the treaty does not further the interests of the United States enough to justify the necessary compromises. These treaties never make it to this Committee. Accordingly, each treaty that we present here represents not only the best deal that we believe we can achieve with the particular country at this time, but also constitutes an agreement that we believe is in the best interests of the United States. The technical explanations which accompany our treaty, the discussions with the staffs of this Committee and its members, and the staffs of the tax-writing Committees, and most importantly, hearings such as this, will provide the Senate with the assurance that a particular treaty is, overall, in the best interests of the United States.

Discussion of Treaties and Protocols

Each of the treaties before you today reflects the basic principles of current United States treaty policy. The provisions in each treaty borrow heavily from recent treaties approved by the Senate and the U.S. model and are generally consistent with the 1992 OECD Model Income Tax Convention, as subsequently amended. The United States was and continues to be an active participant in the development of the OECD Model, and we are generally able to use most of its provisions as a basis for negotiations.

The U.S. model was published in September 1996. A model treaty is a useful device if used properly and kept current. In the course of the negotiation of these treaties, we discovered that certain provisions of our model treaty could be improved upon, and we did so in these agreements. Many of these improvements have become part of the document that we use to begin negotiations and we expect that they will be reflected in a new version of the U.S. model that will be published in the future.

There are no major inconsistencies between the U.S. and OECD models, but rather the U.S. model elaborates on issues in which the United States may have a greater interest or which result from particular aspects of United States law and policy. For example, our limitation of benefits provisions are generally not found in typical tax treaties of other OECD countries. We have also found it useful to expand on treaty coverage and treatment of pass-through entities such as our limited liability companies. Despite the importance we attach to the OECD model and our continuing efforts with our colleagues to improve it and keep it current, most countries cannot accede to all of the provisions of that model, nor do we expect that all of our prospective treaty partners will agree with all of the provisions of our model. The primary benefit of the U.S. Model is that it enables all interested parties, including this Committee and the Congress and its staffs, the American business community, and our prospective treaty partners, to know and understand our treaty positions. We do not anticipate that the United States will ever sign a tax convention identical to the model; there are too many variables.

Nevertheless, there are some basic provisions that are found in all of the treaties. These include provisions designed to improve the administration both of the treaty and of the underlying tax systems, including rules concerning exchange of information, mutual administrative assistance, dispute resolution and nondiscrimination. Each treaty permits the General Accounting Office and the tax-writing committees of Congress to obtain access to certain tax information exchanged under treaty for use in their oversight of the administration of United States tax laws and treaties. Each treaty also contains a now-standard provision ensuring that tax discrimination disputes between the two nations generally will be resolved within the ambit of the tax treaty, and not under any other dispute resolution mechanisms, including the World Trade Organization (WTO).

Finally, some treaties will have special provisions not found in other agreements. These provisions account for unique or unusual aspects of the treaty partner's internal laws or circumstances. For example, many well-known Danish multinational companies are owned in part by "taxable non-stock corporations". If the treaty had not included special rules for taxable non-stock corporations, the multinationals might not have qualified for full treaty benefits, even though they clearly are not treaty-shopping. These rules had to be tailored to the Danish law and the specific manner in which the taxable non-stock corporations operate, without violating any of the basic principles underlying our limitation on benefits provisions. The flexibility we bring to the table should be regarded as a strength rather than a weakness of the tax treaty program, since it is these differences in the treaties which enable us to reach agreement and thereby reduce taxation at source, prevent double taxation and increase tax cooperation.

I would like to discuss the importance and purposes of each agreement that you have been asked to consider. We have submitted Technical Explanations of each agreement that contain detailed discussions of each treaty and protocol. These Technical Explanations serve as an official guide to each agreement. We have furnished our treaty partners with a copy of the relevant technical explanation and offered them the opportunity to submit their comments and suggestions.

<u>The Baltic Treaties -- Estonia, Latvia and Lithuania</u>

I would now like to turn to the three treaties colloquially known as the "Baltic Treaties." Since gaining independence from the Soviet Union at the beginning of this decade, the three Baltic States – Estonia, Latvia and Lithuania – have actively pursued reforms aimed at economic stabilization and market strengthening. These reforms have placed Estonia in the first wave of

Central and East European applicants to the European Union, while Latvia and Lithuania are currently under consideration by the EU for promotion to this first wave. Economic performance in all three countries over the past several years has been among the best in the region.

Entering into these treaties is an important element in our current tax treaty program and is a high priority with the U.S. business community. Without the current treaty, U.S. businesses are at a competitive disadvantage in the Baltics, since many of their competitors are from countries that have concluded a tax treaty with them. Under the proposed Conventions, the Baltic States taxation of U.S. operations would decrease on direct investment dividends, copyright royalties (including software), royalties on the right to use equipment, and interest paid on loans guaranteed by the U.S. Export-Import Bank. In addition, the proposed Convention would provide U.S. business a greater degree of certainty, protection against discriminatory tax practices and the ability to resolve potential double taxation cases and other disputes.

Although these Conventions were largely negotiated at joint sessions, these are, of course, three separate treaties with three separate, sovereign nations. I will, therefore, deal with each of the three separately. In general, however, it should be noted that none of the three deviates substantially from any of our more recent treaties.

Estonia

Let me first deal with Estonia. The treaty does differ from other recent U.S. treaties in a number of respects. I will now highlight some of these differences as well as other important provisions of the treaty.

First, in respect of the taxation of investment income. The withholding rates under the treaty are in some respects higher than those in the U.S. Model and in many recent U.S. treaties with OECD countries. The rates are the same as in many Estonian treaties. Under the treaty dividends are subject to taxation at source in the same manner as under the U.S. Model. Direct investment dividends are subject to withholding tax at source at a maximum 5 percent rate, and portfolio dividends are taxable at a maximum 15 percent rate. The treaty requires a 10 percent ownership threshold for application of the 5 percent tax rate.

The treaty provides for a maximum 10 percent rate of tax at source on most interest payments. Interest earned on trade credits, and on government debt, including debt guaranteed by government agencies (e.g., the U.S. Export-Import Bank) is exempt from tax at source.

Royalties for the use of industrial, commercial or scientific equipment are subject to a 5 percent tax at source. All other royalties (including payments for the use of software, other than off-the-shelf software) are taxed at a maximum rate of 10 percent.

In relation to the taxation of business income, consistent with the U.S. and OECD Models, the treaty provides generally for the taxation by one State of the business profits of a resident of the other only when such profits are attributable to a permanent establishment located in that other State. The treaty, however, includes an anti-abuse rule that would allow the source state to tax sales or activities performed by the enterprise outside the United States as if they were performed by a permanent establishment if it is ascertained that such activities were structured with the intention to avoid taxation in the State where the permanent establishment is situated.

The treaty, consistent with current U.S. treaty policy, provides for exclusive residence-country taxation of profits from international carriage by aircraft and ships. This reciprocal exemption also extends to income from the rental of aircraft, ships and containers if the rental activity is incidental to the operation of aircraft and ships by the lessor in international traffic. However, income from the international rental of ships and aircraft that is non-incidental to operation of ships and aircrafts is taxed at a 5 percent rate as a royalty paid for the rental of equipment.

Income from the use or rental of containers that is non-incidental to the operation of ships or aircraft in international traffic is treated as other income. Therefore, non-incidental leasing of containers by U.S. businesses is taxable only in the United States.

With regard to the taxation of personal services income, the taxation of income from the performance of personal services under the treaty is generally similar to that under the U.S. Model, but, like some U.S. treaties with developing countries, it grants a taxing right to the host country with respect to certain categories of personal services income that is somewhat broader than in the OECD or U.S. Model.

The limitation on benefits provisions are similar to those found in the U.S. Model and in all recent U.S. treaties.

The exchange of information provisions generally follow the U.S. Model and make clear that Estonia is obligated to provide U.S. tax officials such information as is necessary to carry out the provisions of the treaty.

The treaty provides a U.S. foreign tax credit for the Estonian income taxes covered by the Treaty, and a Estonian foreign tax credit for the U.S. income taxes covered by the treaty.

The treaty will enter into force after each State has notified the other that it has completed its ratification requirements. It will have effect, with respect to taxes withheld at the source, for amounts paid or credited on or after the first day of January of the calendar year next following the year in which the treaty enters into force. In other cases the treaty will have effect with respect to taxable years beginning on or after the first day of January of the calendar year next following the year in which the treaty enters into force. The treaty will remain in force indefinitely unless terminated by one of the Contracting States. Either State will be able to terminate the treaty at the end of any calendar year by giving written notice at least six months before the end of that calendar year.

Unique to the treaty and the treaties with Latvia and Lithuania is an agreement that there will be a five-year period within which the appropriate authorities of the two States will meet to discuss the application of the treaty to income derived from new technologies (such as payments received for transmission by satellite, cable, optic fibre or similar technology). The meeting may result in a protocol that specifically addresses the treaty's application to income from new technologies.

Latvia

Next I will turn to Latvia. This treaty also differs in some respects from other recent U.S. tax treaties. I will again highlight some of these differences as well as other important provisions of the treaty.

In respect of the taxation of investment income, the withholding rates under the treaty are, again, in some respects higher than those in the U.S. Model and in many recent U.S. treaties with OECD countries. The proposed rates are the same as in many Latvian treaties.

Under the treaty dividends are subject to taxation at source in the same manner as under the U.S. Model. Direct investment dividends are subject to withholding tax at source at a maximum 5 percent rate, and portfolio dividends are taxable at a maximum 15 percent rate. The treaty requires a 10 percent ownership threshold for application of the 5 percent tax rate.

The treaty provides for a maximum 10 percent rate of tax at source on most interest payments. Interest earned on trade credits, and on government debt, including debt guaranteed by government agencies (e.g., the U.S. Export-Import Bank) is exempt from tax at source.

Royalties for the use of industrial, commercial or scientific equipment are subject to a 5 percent tax at source. All other royalties (including payments for the use of software, other than off-the-shelf software) are taxed at a maximum rate of 10 percent.

In relation to the taxation of business income, consistent with the U.S. and OECD Models, the treaty provides generally for the taxation by one State of the business profits of a resident of the other only when such profits are attributable to a permanent establishment located in that other State. The treaty, however, includes an anti-abuse rule that would allow the source state to tax sales or activities performed by the enterprise outside the United States as if they were performed by a permanent establishment if it is ascertained that such activities were structured with the intention to avoid taxation in the State where the permanent establishment is situated.

The treaty, consistent with current U.S. treaty policy, provides for exclusive residence-country taxation of profits from international carriage by aircraft and ships. This reciprocal exemption also extends to income from the rental of aircraft, ships and containers if the rental activity is incidental to the operation of aircraft and ships by the lessor in international traffic. However, income from the international rental of ships and aircraft that is non-incidental to operation of ships and aircrafts is taxed at a 5 percent rate as a royalty paid for the rental of equipment.

Income from the use or rental of containers that is non-incidental to the operation of ships or aircraft in international traffic is treated as other income. Therefore, non-incidental leasing of containers by U.S. businesses is taxable only in the United States.

With regard to the taxation of offshore activities, the treaty contains a reciprocal agreement, found in several U.S. treaties, particularly those with our North Sea partners, that the income from the exploration or exploitation of the seabed and sub-soil is taxable by the source State if the activities are carried on for more than 30 days in any twelve month period. Wages, salaries and similar remuneration paid to those whose employment is derived from such activities can be taxed in the state where the offshore activities occur if such activities exceed the 30 day threshold. However, that same remuneration can be taxed only in the non-source State if the period of activity does not exceed 30 days and the employer is not a resident of the source State. If the wages, salaries or other remuneration are derived from the transportation of supplies or from other activities (such as tugboats) auxiliary to the exploration and exploitation then that remuneration can be taxed only in the country of which the employer is resident.

The taxation of income from the performance of personal services under the treaty is generally similar to that under the U.S. Model, but, like some U.S. treaties with developing countries, it grants a taxing right to the host country with respect to certain categories of personal services income that is somewhat broader than in the OECD or U.S. Model.

The limitation on benefits rules of the treaty are similar to those found in the U.S. Model and in all recent U.S. treaties.

The exchange of information provisions generally follow the U.S. Model and make clear that Latvia is obligated to provide U.S. tax officials such information as is necessary to carry out the provisions of the treaty.

The treaty provides a U.S. foreign tax credit for the Latvian income taxes covered by the treaty, and a Latvian foreign tax credit for the U.S. income taxes covered by the treaty.

The treaty will enter into force after each State has notified the other that it has completed its ratification requirements. It will have effect, with respect to taxes withheld at the source, for amounts paid or credited on or after the first day of January of the calendar year next following the year in which the treaty enters into force. In other cases the treaty will have effect with respect to taxable years beginning on or after the first day of January of the calendar year next following the year in which the treaty enters into force.

The treaty will remain in force indefinitely unless terminated by one of the Contracting States. Either State will be able to terminate the treaty at the end of any calendar year by giving written notice at least six months before the end of that calendar year.

Unique to the treaty and the treaties with Estonia and Lithuania is an agreement that there will be a five-year period within which the appropriate authorities of the two States will meet to discuss the application of the treaty to income derived from new technologies (such as payments received for transmission by satellite, cable, optic fibre or similar technology). The meeting may result in a protocol that specifically addresses the treaty's application to income from new technologies.

Lithuania

Finally, let me turn to Lithuania. As with the other two Baltic treaties, this treaty differs in some respects from other recent U.S. tax treaties. I will again highlight some of these differences as well as other important provisions of the treaty.

Once again, the withholding rates under the treaty are, in some respects higher than those in the U.S. Model and in many recent U.S. treaties with OECD countries. The proposed rates are the same as in many Lithuanian treaties.

Under the treaty, dividends are subject to taxation at source in the same manner as under the U.S. Model. Direct investment dividends are subject to withholding tax at source at a maximum 5 percent rate, and portfolio dividends are taxable at a maximum 15 percent rate. The treaty requires a 10 percent ownership threshold for application of the 5 percent tax rate.

The treaty provides for a maximum 10 percent rate of tax at source on most interest payments. Interest earned on trade credits, and on government debt, including debt guaranteed by government agencies (e.g., the U.S. Export-Import Bank) is exempt from tax at source.

Royalties for the use of industrial, commercial or scientific equipment are subject to a 5 percent tax at source. All other royalties (including payments for the use of software, other than off-the-shelf software) are taxed at a maximum rate of 10 percent.

Consistent with the U.S. and OECD Models, the treaty provides generally for the taxation by one State of the business profits of a resident of the other only when such profits are attributable to a permanent establishment located in that other State. The treaty, however, includes an anti-abuse rule that would allow the source state to tax sales or activities performed by the enterprise outside the United States as if they were performed by a permanent establishment if it is ascertained that such activities were structured with the intention to avoid taxation in the State where the permanent establishment is situated.

The treaty, consistent with current U.S. treaty policy, provides for exclusive residence-country taxation of profits from international carriage by aircraft and ships. This reciprocal exemption also extends to income from the rental of aircraft, ships and containers if the rental activity is incidental to the operation of aircraft and ships by the lessor in international traffic. However, income from the international rental of ships and aircraft that are non-incidental to operation of ships and aircrafts is taxed at a 5 percent rate as a royalty paid for the rental of equipment.

Income from the use or rental of containers that is non-incidental to the operation of ships or aircraft in international traffic is treated as other income. Therefore, non-incidental leasing of containers by U.S. businesses is taxable only in the United States.

The treaty contains a reciprocal agreement, found in several U.S. treaties, particularly those with our North Sea partners, that the income from the exploration or exploitation of the seabed and sub-soil is taxable by the source State if the activities are carried on for more than 30 days in any twelve month period. Wages, salaries and similar remuneration paid to those whose employment is derived from such activities can be taxed in the state where the offshore activities occur if such activities exceed the 30 day threshold. However, that same remuneration can be taxed only in the non-source State if the period of activity does not exceed 30 days and the employer is not a resident of the source State. If the wages, salaries or other remuneration are derived from the transportation of supplies or from other activities (such as tugboats) auxiliary to the exploration and exploitation then that remuneration can be taxed only in the country of which the employer is resident.

The taxation of income from the performance of personal services under the treaty is generally similar to that under the U.S. Model, but, like some U.S. treaties with developing countries, it grants a taxing right to the host country with respect to certain categories of personal services income that is somewhat broader than in the OECD or U.S. Model.

The limitation on benefits rules of the treaty are similar to those found in the U.S. Model and in all recent U.S. treaties.

The information exchange provisions generally follow the U.S. Model and make clear that Lithuania is obligated to provide U.S. tax officials such information as is necessary to carry out the provisions of the treaty.

The treaty provides a U.S. foreign tax credit for the Lithuanian income taxes covered by the treaty, and a Lithuanian foreign tax credit for the U.S. income taxes covered by the treaty.

The treaty will enter into force after each State has notified the other that it has completed its ratification requirements. It will have effect, with respect to taxes withheld at the source, for amounts paid or credited on or after the first day of January of the calendar year next following the year in which the treaty enters into force. In other cases the treaty will have effect with respect to taxable years beginning on or after the first day of January of the calendar year next following the year in which the treaty enters into force.

The treaty will remain in force indefinitely unless terminated by one of the Contracting States. Either State will be able to terminate the treaty at the end of any calendar year by giving written notice at least six months before the end of that calendar year.

Unique to this treaty and the treaties with Estonia and Latvia is an agreement that there will be a five-year period within which the appropriate authorities of the two States will meet to discuss the application of the treaty to income derived from new technologies (such as payments received for transmission by satellite, cable, optic fibre or similar technology). The meeting may result in a protocol that specifically addresses the treaty's application to income from new technologies.

This concludes my remarks on the three Baltic treaties.

Venezuela

Next, I would like to tell you about the proposed treaty with Venezuela. This treaty is of special importance because it represents a crucial step towards achieving our goal of expanding our tax treaty network in Latin America. If ratified, this agreement would be the United States' only tax treaty in force with a South American nation.

The proposed treaty with Venezuela generally follows the pattern of the 1996 U.S. Model, while incorporating some provisions found in recent U.S. treaties with other developing countries and in the OECD Model. The treaty's rules on the taxation of investment income are an example. Although the withholding rates under the proposed treaty are generally higher than those in the U.S. Model, the rates are comparable to those found in other U.S. tax treaties with developing countries and those in other tax treaties of Venezuela. Also, the withholding rates reflect Venezuela's territorial system of taxation and the policy objective of establishing an adequate single level of tax on cross-border investment income.

Under the proposed treaty, as in the U.S. Model, direct investment dividends are taxable at source at a 5 percent rate, and portfolio dividends are taxable at source at a 15 percent rate. The proposed treaty requires a 10 percent ownership threshold for application of the 5 percent direct investment tax rate. Also similar to the U.S. Model, dividends paid to a Contracting State or a governmental entity constituted and operated exclusively to administer or provide pension benefits, are exempt from withholding in the source State.

The proposed treaty provides for a 10 percent rate of tax at source on most interest payments. Interest that is received by a financial institution (including an insurance company) is subject to a lower 4.95 percent rate of tax. Interest earned on government debt, including debt guaranteed by government agencies (e.g., the U.S. Export-Import Bank, the Federal Reserve

Banks and the Overseas Private Investment Corporation) is exempt from tax at source. These provisions are, in effect, a melding of the U.S. and OECD Models.

Royalties for the right to use copyrights, patents or trademarks are subject to a 10 percent tax at source. Royalties for the right to use industrial, commercial or scientific equipment are subject to a lower 5 percent rate of tax at source. Under the proposed treaty, fees for the provision of technical services and fees for technical assistance are considered business profits or personal services income, and are taxed as such, rather than as royalty payments. These latter important provisions thereby mitigate double taxation and generally limit any taxation to net rather than gross income, and then only to when a permanent establishment is created.

The taxation of capital gains under the proposed treaty follows the format of the U.S. Model. Gains and income derived from the sale of real property and from real property interests may be taxed by the State in which the property is located. Likewise, gains or income from the sale of personal property, if attributable to a fixed base or permanent establishment situated in a Contracting State, may be taxed in that State. All other gains, including gains from the sale of ships, aircraft and containers, and gains from the sale of stock in a corporation, are taxable only in the State of residence of the seller.

Regarding the taxation of business income, as with the U.S. and OECD Models, the proposed treaty provides generally for the taxation by one State of the business profits of a resident of the other only when such profits are attributable to a permanent establishment located in that other State. Under the proposed treaty, the taxation of income from the operation of ships and aircraft in international traffic and from the use, maintenance or rental of containers used in international traffic is fully consistent with the U.S. Model.

The taxation of income from the performance of personal services under the proposed treaty is similar to that under some U.S. treaties with developing countries, but grants a taxing right to the host country with respect to such income that is broader than in the OECD or U.S. Model.

The limitation on benefits provisions of the proposed treaty are similar to those found in the U.S. Model and in all recent U.S. treaties, with minor modifications necessary because of Venezuela's territorial tax system.

The information exchange provisions generally follow the U.S. Model and make clear that Venezuela is obligated to provide U.S. tax officials such information as is necessary to carry out the provisions of the treaty.

The proposed treaty provides a U.S. foreign tax credit for Venezuelan income taxes subject to the limitations imposed by U.S. internal law on the granting of foreign tax credits. Similarly, Venezuela shall, under the proposed Convention, provide relief against double taxation to Venezuelan taxpayers who are also subject to U.S. income tax, subject to the limitations imposed by Venezuelan law.

The proposed treaty will enter into force when each Contracting State has notified the other that the domestic requirements needed for entry into force have been completed. It will have effect, with respect to taxes withheld at source, for amounts paid or credited on or after January 1 of the year following the date on which the treaty enters into force. In other cases the treaty will have effect with respect to taxable periods beginning on or after January 1 of the year following the date on which the treaty enters into force.

I know that the Committee has been alerted to a pending change in Venezuela's income tax law, through which Venezuela will begin taxing all of the income received by its residents, rather than only that income that was determined, under broad "sourcing" rules, to be connected to Venezuela. The possibility that Venezuela would adopt this "worldwide" system was present throughout our treaty negotiations, and we planned for it in drafting the treaty. And while more time with the new law may provide us with more opportunity to analyze its provisions, we believe that the analysis we have performed is adequate to allow us to determine that the treaty is at least as appropriate under the new law as it would have been under the old law, and likely more so. We believe that the treaty works appropriately, in large part because this change from "territorial" to "worldwide" taxation brings Venezuela's domestic laws into closer conformity with international norms. The increased possibilities for double taxation that are the natural result of this change make the treaty that much more important than it was when Venezuela had a territorial system. And the vestiges of Venezuela's territorial system are also addressed by special provisions in the treaty included to deal with that system. On balance, we believe we can recommend that the Committee approve the treaty despite this change in Venezuela's law.

Slovenia

The United States does not currently have an income tax treaty with Slovenia. Slovenia will be the first country in the area of the former Yugoslavia with which we will have concluded a tax treaty. It is the most economically advanced country in the former Yugoslavia and is in the first wave of applicants to the European Union from Central and Eastern Europe. We expect that the conclusion of the tax treaty will be an important element in expanding trade and investment between the United States and Slovenia.

The proposed income tax treaty with the Republic of Slovenia generally follows the pattern of the U.S. Model, while incorporating some provisions found in the OECD Model. The proposed treaty establishes maximum rates of source country tax on cross-border payments of dividends, interest, and royalties. The withholding rates on investment income in the proposed treaty are generally consistent with those found in U.S. treaties with OECD member countries.

Dividends may be subject to tax at source at a maximum rate of 15 percent, except when paid to a corporation in the other country that owns at least 25 percent of the paying corporation, in which case the maximum rate is 5 percent.

The maximum rate of withholding tax at source on interest under the proposed treaty is 5 percent. However, interest received, guaranteed, or insured by the Government of either Contracting State or the central bank of either Contracting State and interest with respect to a deferred payment for personal property or services is exempt from withholding at source.

Royalties are generally subject to tax at source at a rate not to exceed 5 percent.

The taxation of capital gains under the proposed treaty follows the format of the U.S. Model. Gains and income derived from the sale of real property and from real property interests may be taxed in the State in which the property is located. Likewise, gains or income from the sale of personal property, if attributable to a fixed base or permanent establishment situated in a Contracting State, may be taxed in that State. All other gains, including gains from the sale of ships, aircraft and containers, and stock in a corporation, are taxable only in the State of residence of the seller.

As with the U.S. and OECD Models, the proposed treaty provides generally for the taxation by one State of the business profits of a resident of the other only when such profits are attributable to a permanent establishment located in that other State. Under the proposed treaty, the taxation of income from the operation of ships and aircraft in international traffic and from the use, maintenance or rental of containers used in international traffic is fully consistent with the U.S. Model.

The taxation of income from the performance of personal services under the proposed treaty generally follows standard U.S. treaty policy. The taxation of income from dependent personal services or of income derived by corporate directors, by athletes, or by entertainers is essentially the same as in other recent U.S. treaties. The dollar threshold for the taxation of athletes and entertainers is slightly lower than in the U.S. Model to reflect the lower average income level in Slovenia.

The treaty provides for host-country exemption for students for up to five years with respect to certain types of income. These exempted categories of income include support payments from abroad, grants and awards, and up to $5,000 of annual income from personal services in the host state. Business trainees temporarily present in the host State are exempted from tax for up to 12 months with respect to income from personal services not exceeding $8,000. Visiting professors and researchers at recognized educational or research institutions are exempt from host-country taxation for a period not exceeding two years from the date of first arrival.

The proposed treaty contains comprehensive rules in its "Limitation on Benefits" article, designed to deny "treaty-shoppers" the benefits of the treaty. In addition, the treaty contains new provisions aimed at preventing abuse with respect to specific transactions. Under these provisions, a person otherwise entitled to treaty benefits will be denied those benefits if the main purpose, or one of the main purposes, of the creation or assignment of the rights giving rise to the income was to take advantage of the treaty. These provisions apply with respect to the Articles regarding Dividends, Interest, Royalties, and Other Income. It is expected that the United States will incorporate these new anti-abuse provisions into its Model.

The information exchange provisions generally follow the U.S. Model and make clear that each State is obligated to provide tax officials of the other State such information as is necessary to carry out the provisions of the treaty. Slovenia has confirmed to us that it has no bank secrecy or other rules that would prevent such exchange from taking place.

The proposed treaty provides a U.S. foreign tax credit for Slovenian income taxes subject to the limitations imposed by U.S. internal law on the granting of foreign tax credits. Similarly, Slovenia shall, under the proposed treaty, provide relief against double taxation to Slovenian taxpayers who are also subject to U.S. income tax, subject to the limitations imposed by Slovenian law.

Also included in the proposed treaty are rules necessary for administering the treaty, including rules for the resolution of disputes under the treaty.

The proposed treaty will enter into force upon the exchange of instruments of ratification. It will have effect with respect to taxes withheld at source for payments made or credited on or after the first day of the third month next following the date the treaty enters into force, and with respect to other taxes, for taxable years beginning on or after the first day of January next following the date of entry into force.

Denmark

I'd like to turn now to the proposed treaty and protocol with Denmark. This proposed treaty would replace the existing convention, our oldest income tax treaty, which was signed in 1948. The new treaty generally follows the pattern of the OECD Model and of recent U.S. treaties with other developed countries.

First, with regard to the taxation of investment income, the withholding tax rates under the proposed treaty are the same as those in the U.S. Model. Direct investment dividends are subject to withholding tax at source at a maximum 5 percent rate and portfolio dividends are taxable at a maximum 15 percent rate. The proposed treaty requires a 10 percent ownership threshold for application of the 5 percent tax rate. This ownership threshold is reduced from the 95 percent threshold required under the existing treaty. As under the existing treaty, interest and royalty payments are generally exempt from tax in the source country under the proposed treaty.

These limitations on taxation by the source country do not apply if the beneficial owner of the income is a resident of a Contracting State that carries on business in the other Contracting State in which the income arises and, in the case of business profits, the income is attributable to a permanent establishment or, in the case of independent personal services, to a fixed base in that other State.

The taxation of capital gains under the proposed treaty generally follows the format of the U.S. Model. Gains from the sale of real property and from real property interests may be taxed by the country in which the property is located. Likewise, gains from the sale of personal property forming part of a fixed base or permanent establishment situated in a contracting State may be taxed in that State. All other gains, including gains from the alienation of ships, boats, aircraft and containers used in international traffic and gains from the sale of corporate stock are taxable only in the seller's residence State. As a variation from the rules under the current treaty and the U.S. Model, gains of an enterprise of one Contracting State from the deemed alienation of an installation, drilling rig or ship used in the other State for the exploration or exploitation of oil and gas resources may be taxed in that other State in accordance with its law, but only to the extent of any depreciation taken in that other State. In order to minimize possible double taxation that could otherwise arise, the treaty allows adjustments to the timing of the taxation of capital gains.

As with the existing treaty, recent U.S. treaties and the OECD Model, the proposed treaty provides generally for the taxation by one State of the business profits of a resident of the other only when such profits are attributable to a permanent establishment located in that other State.

In addition, the proposed treaty preserves the U.S. right to impose its branch tax on U.S. branches of Danish corporations. This tax is not imposed under the existing treaty.

Consistent with the U.S. Model, the proposed treaty permits only the country of residence to tax profits from the international operation of ships or aircraft and income from the use, maintenance or rental of containers used in international traffic. This reciprocal exemption extends to income from the rental on a full basis of ships and aircraft and, if the ships or aircraft are operated in international traffic by the lessee or the income is incidental to income from the operation of ships or aircraft in international traffic, to income from the rental on a bareboat basis of ships and aircraft. The exemption under the proposed treaty is broader in scope than under the existing treaty.

The proposed treaty clarifies the treatment of the profits of the Scandinavian Airlines System (SAS) by treating it as a consortium that is eligible for the exemption from taxation in the source State to the extent of the participation of the Danish member of SAS, SAS Danmark A/S.

The taxation of income from the performance of personal services under the proposed treaty generally follows U.S. standard treaty policy. The rules for the taxation of pension income vary from the rules found in the existing treaty and the U.S. Model by providing for taxation only in the source State, subject to an exception for persons currently receiving pensions, who will continue to be taxed only in the country of residence.

The limitation on benefits provisions of the proposed treaty are similar to those found in the U.S. Model and recent U.S. treaties, with modifications to take account of certain types of entities found only in Denmark.

The proposed treaty provides a foreign tax credit for certain taxes imposed under the Danish Hydrocarbon Tax Act, subject to the same type of limitation that is found in other tax treaties with countries on the North Sea.

Also included in the proposed treaty are the rules necessary for administering the treaty, including rules for the resolution of disputes under the treaty and the exchange of information. The exchange of information provisions of the proposed treaty generally follow the U.S. Model. Our experience on exchange of information with Denmark is positive. As under the existing treaty, the proposed treaty contains a provision for assistance in the collection of taxes.

The proposed treaty will enter into force when the Governments notify each other that their requirements for entry into force have been met. It will have effect, with respect to taxes withheld at source, for amounts paid or credited on or after the first day of the second month next following the date on which the treaty enters into force; with respect to other taxes, the treaty will take effect for taxable periods beginning on or after the first day of January next following the date on which the treaty enters into force. Where the existing treaty would have provided greater relief from tax than the proposed treaty, the existing treaty will continue to have affect for an additional year at the election of any person that was entitled to benefits under the current treaty. The proposed treaty will remain in force indefinitely unless terminated by one of the Contracting States by giving prior notice through diplomatic channels.

<u>Italy</u>

The proposed new treaty and protocol with Italy would replace the existing treaty, which was signed in 1984. The proposed treaty generally follows the pattern of the OECD Model and other recent United States treaties with developed countries. The proposed treaty is of great importance to the U.S. business community because it addresses a new Italian regional tax on productive activities and generally lowers the withholding rates imposed by each country on passive investment income.

The proposed treaty addresses the replacement of the Italian local income tax by the new Italian regional tax on productive activities (IRAP). Because IRAP is calculated without an allowance for labor costs and, for certain taxpayers, without an allowance for interest costs, it raises the issue of potential double taxation. By providing a U.S. tax credit for a portion of IRAP the proposed treaty resolves this issue. A formula is provided in the proposed treaty for calculating the creditable portion. Only the creditable portion of IRAP is considered to be a covered tax under the proposed treaty.

The proposed treaty establishes maximum rates of source country tax on cross-border payments of dividends, interest, and royalties that are generally lower than those in the existing treaty.

Under the proposed treaty, dividends may be subject to tax at source at a maximum rate of 15 percent, except when paid to a corporation in the other country that owns at least 25 percent of the paying corporation, in which case the maximum rate is 5 percent. Under the existing treaty, the 5 percent rate is available only if the receiving corporation owns more than 50 percent of the stock or capital of the paying corporation, while a 10 percent rate applies if the receiving corporation owns between 10 and 50 percent of the paying corporation, and a 15 percent maximum rate applies in all other cases. While the maximum rate applicable to those corporate taxpayers owning at least 10 percent and less than 25 percent of the paying corporation will increase from 10 percent to 15 percent under the proposed treaty, the maximum rate for those owning between 25 percent and 50 percent of the paying corporation, including the significant group of taxpayers who own exactly 50 percent, will decrease from 10 percent to 5 percent.

The proposed treaty lowers the maximum rate of withholding tax at source on interest to 10 percent from the 15 percent rate in the existing treaty. As in the existing treaty, the proposed treaty provides an exemption from withholding at source for interest received, guaranteed, or insured by the Government of either Contracting State (although, in order for interest received by a qualified governmental entity to be eligible for this exemption, the qualified governmental entity must hold less than 25 percent of the capital of the person paying the interest). The proposed treaty also exempts from withholding at source interest with respect to credit sales between enterprises and credit sales of industrial, commercial, or scientific equipment.

The proposed treaty lowers the maximum rates of withholding tax at source for royalty payments compared to the rates in the existing treaty. Under the proposed treaty, royalties for literary copyrights are exempt from tax at source. The maximum rate for royalties for the use of computer software or for the rental of industrial, commercial, or scientific equipment is 5 percent, and the maximum rate for all other royalties is 8 percent. In contrast, under the existing treaty the maximum rate for royalties for literary copyrights is 5 percent, the maximum rate for royalties for the rental of tangible personal property is 7 percent, the maximum rate for royalties for motion pictures and films is 8 percent, and the maximum rate for all other royalties is 10 percent. Thus, although the proposed treaty does not reflect the U.S. Model position of exemption at source for software and rentals of tangible personal property, the proposed treaty reduces the rates of withholding as compared to the existing treaty.

The taxation of capital gains under the proposed treaty follows the format of the existing treaty. Gains and income derived from the sale of real property and from real property interests may be taxed in the State in which the property is located. Likewise, gains or income from the sale of personal property, if attributable to a fixed base or permanent establishment situated in a Contracting State, may be taxed in that State. As in the existing treaty, but unlike the U.S. Model, non-incidental gains from the alienation of ships and aircraft rented on a bareboat basis and attributable to a permanent establishment situated in a Contracting State may be taxed in that State. All other gains, including gains from the alienation of containers, gains from the alienation of ships and aircraft rented on a full basis, incidental gains from the alienation of ships and aircraft rented on a bareboat basis, and gains from the sale of stock in a corporation, are taxable only in the State of residence of the seller.

As with the U.S. and OECD Models, the proposed treaty provides generally for the taxation by one State of the business profits of a resident of the other only when such profits are attributable to a permanent establishment located in that other State.

As under the U.S. Model, all income from the use, maintenance or rental of containers used in international traffic is exempt from source-country taxation under the proposed treaty. Also, the proposed treaty provides for exclusive residence-country taxation of profits from the international operation of ships or aircraft, including the rental of ships and aircraft on a full basis and, when the rental is incidental to the operation of ships or aircraft by the lessor, rentals of ships and aircraft on a bareboat basis. Like the existing treaty, but unlike the U.S. Model, income from the rental of ships and aircraft on a bareboat basis that is not incidental to the operation of ships or aircraft by the lessor and that is attributable to a permanent establishment situated in a Contracting State may be taxed in that State.

Unlike the existing treaty, the taxation of income from the performance of personal services under the proposed treaty generally follows standard U.S. treaty policy. Consistent with the U.S. Model, the proposed treaty eliminates a provision of the existing treaty that allows the source State to tax an individual performing independent personal services if that individual has been present in that State for more than 183 days during the year, even if that person does not have a fixed base regularly available to him.

The limitation on benefits provisions of the proposed treaty are similar to those found in the U.S. Model and in all recent U.S. treaties, and are more comprehensive than those found in the existing treaty.

In addition, the treaty contains new provisions aimed at preventing abuse with respect to specific transactions. Under these provisions, a person otherwise entitled to treaty benefits will be denied those benefits if the main purpose, or one of the main purposes, of the creation or assignment of the rights giving rise to the income was to take advantage of the treaty. These provisions apply with respect to the Articles regarding Dividends, Interest, Royalties, and Other Income. It is expected that the United States will incorporate these new anti-abuse provisions into its Model.

The information exchange provisions are similar to those in the existing treaty and make clear that each State is obligated to provide tax officials of the other State such information as is necessary to carry out the provisions of the treaty. Italy has confirmed to us that it has no bank secrecy or other rules that would prevent such exchange from taking place.

Finally, the proposed treaty includes modernized rules necessary for administering the treaty, including rules for the resolution of disputes under the treaty. These provisions now conform to the OECD Model, which should improve the functioning of the mutual agreement process. They include the use of arbitration to resolve disputes that may arise between the Contracting States. However, the arbitration process may be implemented under the treaty only after the two Contracting State have agreed to do so through an exchange of diplomatic notes. Once implemented, a particular case may be assigned to an arbitration panel only with the consent of all the parties to the case.

The proposed treaty will enter into force upon the exchange of instruments of ratification. It will have effect with respect to taxes withheld at source for payments made or credited on or after the first day of the second month next following the date the treaty enters into force, and with respect to other taxes, for taxable years beginning on or after the first day of January next following the date of entry into force. In the event that a person would have been entitled to greater relief under the existing treaty, that person may elect to continue to apply the existing treaty for a twelve-month period from the date on which the proposed treaty would otherwise have effect. The proposed treaty will remain in force indefinitely unless terminated by one of the Contracting States. Either State may terminate the proposed treaty at any time after 5 years from the date on which the proposed treaty enters into force by giving at least six months prior notice through diplomatic channels.

<u>Estate Tax Protocol with Germany</u>

The proposed protocol amends the estate, inheritance and gift tax treaty between the United States and Germany, which was signed in 1980 and entered into force in 1986. In 1988, the United States amended its estate tax law in a way that increased estate taxes in the case of deceased U.S. citizens who were married to non-citizens.

Although the U.S. rejected claims by estate tax treaty partners that the 1988 change violated treaty nondiscrimination clauses, we indicated our willingness to amend our estate tax treaties with certain treaty partners to provide relief to surviving noncitizen spouses in appropriate cases. In particular, the proposed protocol eases the impact of the 1988 provisions upon certain estates of limited value. The United States, in a 1995 protocol to the U.S.-Canada income tax treaty, provided similar relief to certain estates of limited value involving Canadians. The United States' willingness to enter into the proposed protocol was a significant factor in Germany's ratification of the current U.S.-Germany income tax treaty, which was signed in 1989.

The proposed protocol also provides a pro rata unified credit to the estate of a German domiciliary for purposes of computing the U.S. estate tax. Under this provision, a German domiciliary is allowed a credit against U.S. estate tax ranging from the amount ordinarily allowed to the estate of a nonresident under the Code ($13,000) to the amount of credit allowed to the estate of a U.S. citizen under the Code ($202,050 in 1998), based on the extent to which the assets of the estate are situated in the United States. Congress anticipated the negotiation of such pro rata unified credits in Internal Revenue Code section 2102(c)(3)(A), and a similar credit was included in the 1995 U.S.-Canada income tax protocol.

The proposed protocol also makes other changes to the Convention to reflect more closely current U.S. treaty policy. For example, the proposed protocol extends the period of time during which a citizen of one country can be domiciled in the other country without becoming subject to the primary taxing jurisdiction of the other country. Such a provision is increasingly important to peripatetic business executives. The proposed protocol also extends the United States' ability to tax former citizens and long-term residents to conform with 1996 legislative changes to the Internal Revenue Code.

Agreements dealing with Taxation of Dividends from REITS

In 1997, the Senate approved three treaties, with Austria, Ireland and Switzerland, subject to the understanding that the Treasury Department would use its best efforts to negotiate agreements that would modify those treaties' treatment of dividends paid by Real Estate Investment Trusts. The agreements with Austria and Switzerland are in an advanced stage of negotiation, but have not yet been completed. However, the agreement with Ireland was signed on September 24, 1999. Although it is not yet pending before the Committee, we hope that, if the President transmits it to the Senate in time, the Committee will consider it at the same time as the rest of the treaties as the agreement does nothing other than respond to the Senate's 1997 understanding.

Treaties under Negotiation

We continue to maintain an active calendar of tax treaty negotiations. We are in active negotiations with Canada, Korea, the United Kingdom and Chile. We expect to announce the start of negotiations with several other countries soon. In accordance with the treaty program priorities noted earlier, we continue to seek appropriate opportunities for tax treaty discussions and negotiations with several countries in Latin America and in the developing world generally.

Conclusion

Let me conclude by again thanking the Committee for its continuing interest in the tax treaty program, and for devoting the time of Members and staff to undertake a meaningful review of the agreements that are pending before you. We appreciate your efforts this year and in past years to bring the treaties before this Committee and then to the full Senate for its advice and consent to ratification. We also appreciate the assistance and cooperation of the staffs of this Committee and of the Joint Committee on Taxation in the tax treaty process. With your and their help, we have, since the beginning of 1993, brought into force 22 new treaties and protocols, not counting the eight agreements presently being considered.

We urge the Committee to take prompt and favorable action on all of the Conventions and Protocols before you today. Such action will send an important message to our trading partners and our business community. It will demonstrate our desire to expand the United States treaty network with income tax treaties formulated to enhance the worldwide competitiveness of United States companies. It will strengthen and expand our economic relations with countries that have seen significant economic and political changes in recent years. It will make clear our intention to deal bilaterally in a forceful and realistic way with treaty abuse. Finally, it will enable us to improve the administration of our tax laws both domestically and internationally.

I will be glad to answer any questions you might have.

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DEPARTMENT OF THE TREASURY

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SENIOR TREASURY OFFICIAL TO SPEAK TO CHARLOTTE STUDENTS

Treasury Under Secretary for Enforcement Jim Johnson will speak to students and faculty at **Garinger High School in Charlotte, North Carolina on Monday, November 1 at 1 p.m.**, about the Clinton Administration's current efforts to prevent youth and school violence. Garinger High School is located at 1100 Eastway Drive in Charlotte.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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October 28, 1999

"Economic Engagement: The Risks of Malign Neglect"
Remarks by Lawrence H. Summers,
Secretary of the Treasury
Brookings Institution,
Washington, DC
October 28, 1999

I would like to talk today about the crucial issue of how the United States engages with the rest of the global economy at the dawn of a new century.

Let me focus my remarks on four issues:

- First, the national security and economic case for support for open markets around the world.

- Second the case for supporting global economic development more directly, including through our support for the international financial institutions (IFIs).

- Third, the generalized decline in support for global engagement in the United States, and the implications for both the quantity and the quality of our global leadership.

- Fourth, some of the reasons for this generalized decline – and how these need to be addressed.

Let me begin, however, with a few words about the broader context.

I. A Special Time for the United States

It is, in many ways, a critical moment in our nation's history. America is the world's largest economy and strongest nation with no single, dominant competitor. At the same time, Americans are growing wary of global entanglements. Market ideas are in ascendancy; there is high regard for business and the rights of capital; but while successful investors are heroes, those at the bottom of the ladder still feel insecure. Internationally, the breakdown of empires and the absence of large power balances have made the world ripe for ethnic and nationalist conflicts.

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I suppose I could be describing the latter part of the 1990s. I am actually describing the late 1920s. That was a time of high optimism, a time when continued peace and stability was widely foreseen; yet over the next 15 years the world system would spiral out of control. first economically and then politically. The period of depression and World War that followed are perhaps the darkest two decades of this century and, arguably, among the darkest of this millennium.

History does not repeat itself. Any historical analogy between the world of today and the world of the 1920s is surely imperfect. But it does remind us that there have been other times in our history when the United States' reluctance to engage fully with other nations and to help manage changes in the balance of global economic power has had major consequences.

A generation of post-war leaders was determined that we would not make that mistake again. They helped to shape a global vision of an America committed to create an ever-widening circle of ever more prosperous, ever more international economies. This is a vision that has been at the center of US foreign and economic policy – during Republican and Democrat Administrations alike – for the bulk of our postwar history. And it is a vision that has served our country extraordinarily well.

In many ways, the United States in the final decade of the 20th century is the most successful economy that there has ever been. And yet, at another critical time in our history, the fundamental choice for this country – to be a force for the right kind of global integration – is under threat in a way that it has not been in 50 years.

- That threat does not spring from a single party or agenda – although partisanship and the particular interest have played their role.

- That threat does not clothe itself in the language of protection or nationalistic retreat – although these surely have their proponents.

- And it does not come in a single battle that will be won or lost – although some of the decisions that we make in the coming days will be very important to the long-term result

The risk we face at this special time is more diffuse than any of these – but no less dangerous. It is the risk of what one might call the malign neglect of our global standing: the risk that little by little, in countless different ways for countless different reasons, we will wear away at our capacity to lead the world in a direction that will support our deepest long-term national interests and values – and in a manner that can inspire ever-increasing global support.

II. The National Security and Economic Case for Strong Support for Open Markets

There are two sets of reasons why the United States needs to continue to be a vigorous proponent of open markets policies.

First, it is an investment in our future security

The crucial link between closer economic integration and our national security is this: we are much less likely as a nation to be drawn into conflict if nations of the world are strong, confident, and forging ever-closer connections than if they are financially unstable and disconnected. In short, trade promotes prosperity, and by promoting prosperity, promotes peace.

Fifty years ago, the challenge the world faced was the economic reconstruction of war-ravaged Europe and Japan – and ensuring that the mistakes of the inter-war years would not be repeated. Today we face a very different challenge: the challenge of integrating the five billion people of the developing world into the global economy that is being born out of the embers of the Cold War. But the right course for the United States is the same as it was in 1945.

There may never have been so radical a change in the balance of global economic power as there has been in the emerging markets of the world, particular in Asia, in the past 25 years. The fact that it has taken place without major conflict is in no small part a tribute to increased integration of the world's economies and support for cooperative institutions to cement that integration.

By supporting liberalization in these countries, we invest in our future security and we invest in the spread of our core values. Examples such as Korea, Taiwan and Argentina illustrate that economic development and openness bring democratization in its wake, and there is no better way to spur this process than by integrating these economies into the global marketplace

Second, as an investment in our future prosperity

But even if there were no strategic or broader national security case for open markets and interchange between nations, I believe that there would be a compelling economic case for integration, rooted in our standard of living. Perhaps you will pardon me the slightly academic approach of making this point through an analogy.

Imagine a country all of whose harbors were filled with rocks so that ships and goods could not come in, though some could go out. And imagine that it was proposed to remove the rocks from the harbors. Many people would say that this would be a good thing to do:

- It would provide citizens with a wider choice of consumer goods, at lower prices.

- It would provide producers with a wider choice of inputs, and lower costs, making them more competitive and able to hire more workers and raise their wages.

- It would provide more competition as a spur to productivity and new ideas – and as a result. lower inflation and lower costs of capital.

To be sure, the removal of those rocks would bring about change in the economy. But every day and in every way our market economy – by bringing about improvements in technology, communications and transportation – is bringing down natural barriers and making communication and trade that much easier. The question is whether we should respond differently to man-made barriers to trade.

It bears emphasis that this is not even a symmetrical argument – because we start out more open, so liberalization agreements with other countries always tends to reduce their trade barriers more than it reduces ours. To take just one example, the tariff reductions achieved in NAFTA with Mexico were five times as large in Mexico as in the US.

In other words, an open markets approach is not just good economic policy; it's good even from a mercantilist standpoint as well. And it is especially good policy for the United States because of our strategic position, because of the diversity of our population, and because of the size and strength of our economy. We stand at the hub of a world trading system. And the bigger that world trading system is, the more open it is, the more we will benefit from our position at its hub.

Whatever our broader trade policy might dictate, it cannot be right that the richest country in the world, the richest country that there has ever been, is unable to provide preferential access to its markets to a countries in Africa where 500 million people live, nearly half on incomes of less than one dollar a day. That is why the African Growth and Opportunity Act – which has had strong supporters on both sides of the Congressional aisle – is such a crucial piece of legislation. We hoped it would pass last year. It needs to pass this year.

What is true in Africa is also true much closer to home, in the Caribbean. NAFTA was a very important step, but it had the consequence of hurting some of our other neighbors who did not benefit from the preferences that were provided to Mexican goods. The right trade preferences for the Caribbean – as reflected in the strengthened version of the Caribbean Basin Initiative now before Congress – will help make their economies much stronger and our economy safer.

III. The Case for Sustained Support for the International Financial Institutions

We always – and rightly – tend to respond to and focus on the problems that one can locate on a map, in places such as Kossovo or East Timor. What we may focus on too little are the things that can help prevent such problems occurring in the future. That is why our support for global development institutions, our support for open markets; and our support for strong policy are so important.

Ten years ago, when the Berlin Wall came tumbling down the United States defense budget was $107 billion higher in real terms than it is today. Reasonable people can debate how much of this ought to be invested in forward defense of our core interests through support for the IFIs and other foreign operations. But it would be hard to make the case that the right answer is to spend a good deal less on these things than we did before.

The Foreign Operations bill that the President vetoed last week appropriated only $12.7 billion for these kinds of investments. That is nearly $7 billion, or 35 percent less than the $19.4 billion average that was spent under President Reagan and President Bush. To take just one crucial piece of this: in 1991, President Bush requested a $1.8 billion contribution to the IFIs. For

2000, President Clinton requested just $1.4 billion. But Congress cut that request to just $895 million – or less than half the level of spending in 1991.

The President's International Affairs request for these and other international priorities is not large by historical standards – and it is barely one percent of the total federal budget. It represents high return investments in America's core interests and its global leadership – investments that for more than 50 years have enjoyed strong bipartisan support.

Every dollar we contribute to the multilateral development banks leverages more than $45 in official lending, to countries where more than three-quarters of the world's people live. Quite simply, they are the most effective tools we have for investing in the markets of tomorrow.

These programs help to promote changes that reflect core American values: such as freer markets, greater transparency and public participation strengthened property rights and open borders. And they are at the cutting edge of global efforts to combat major new threats such as AIDS, which is already devastating Africa and now threatens to erase twenty years of economic development in Asia.

- Not so long ago, the United States annual commitment to the IFIs came to $1.9 billion. Today that has been cut to $1.2 billion. Yet the Congressional bill would prevent us from meeting even this reduced obligation.

- Not so long ago, United States arrears to these institutions that we were so central to creating were $1.5 billion. Today that debt has been reduced to $335 million. The Congressional bill would reverse that progress, and our arrears next year would rise to more than $665 million.

The same bill would also fatally undermine a global effort to reduce the debt of the poorest countries. Yet writing off debts owed by countries that will never be able to repay them is sound financial accounting. It is also a moral imperative at a time when a new generation of African leaders is trying to throw off the legacies of the Cold War and open up their economies. That is what the Heavily Indebted Poor Country initiative is about. It will not write off the debts of countries that are not working to reform. It will help build future markets in countries that are committed to helping themselves.

At a time when the wars that the world faces are more likely to be born of ethnic divisions and poor governance within countries than ideological power struggles between them – and when conflicts in Africa have killed more people in the 1990s than in every other region combined – investing a tiny fraction of our budget in programs that can help these countries build a better future is not an investment that a nine trillion dollar economy should find it difficult to make.

IV. The Broader Costs of Reduced Support for Engagement

I have spoken of the aspects of our global engagement that Treasury is most involved with. But of course the generalized domestic distrust of global involvement shows up in other ways:

- In visible rejections of multilateral policies and institutions: including the widespread opposition we have seen to the World Trade Organization; the sixty-plus times that the US has imposed unilateral economic sanctions since 1993; and the failure to pay our dues to the United Nations which may soon cause us to lose our seat in the General Assembly.

- And, no less clearly, we see it in the rising demands that we make on other countries as conditions for United States support. Each of these, considered individually, may be wise – but cumulatively, they risk the erosion over time of broader global support.

It is a striking irony of this time that the economy that has gained most from rising global integration and cooperation seems to need ever-greater assurance that these things are in its interest – and will invest an ever-decreasing amount in their support. And that irony, we can be sure, is not lost on other nations. In all of these ways, the United States' reduced faith in the benefits of global engagement threatens to reduce the world's faith in us, and so to undermine our global authority.

Of course, in our support for global institutions and agreements we must always ensure that core American interests and values are protected. But the stock of global goodwill is not infinite. When we choose to deplete it in a given instance – the consequences for the next time we need that goodwill must always be taken into account.

If we want to have an opportunity to shape the right kind of global economy – one that supports our interests and values and where there are common rules that enable it to work for all – we have to be part of the process. And we have to be seen to be participating constructively and in good faith.

V. The Roots of Malign Neglect

I have tried to reflect on why, when the security benefits are so compelling and the economic benefits so clear, it so difficult to make the case for open trade and broader economic integration in America today. Three reasons stand out:

The first is the natural human tendency to internalize the good news and externalize the bad. How many people working hard at a badly managed firm, with out-dated technology, pin the blame for their layoff on foreign competition? How many people, when offered a raise or promotion in a labor-short industry following a surge of export demand, assign the credit to open international markets, rather than considering it to be a deserved reward to their own skill?

It is the nature of the trading process that when there are costs, those costs are apparent and attributed to trade, even when the main cause is something else – and when there are benefits, the link with trade is seldom if ever made. That makes the case for integration that much more difficult to make.

The second reason why we have a hard time making a compelling case for global integration is that the compelling geopolitical rationale that the Cold War provided is no more. Historians have written at length about the oscillations of the United States between isolationism and global engagement. It greatly simplifies, but perhaps does not distort, that work to say that our global engagement has typically been in response to a dire threat.

Today's threats – of rising disorder and impoverishment overseas – do not have the emergency character that the threats of an earlier time have had. Yet we saw in the inter-war years what could happen when the United States shunned cooperation and turned inward, at a time of great national strength That is the danger we must work to avoid today, just as those visionary leaders did after 1945.

The third reason is that trade – and integration more generally – tend to become the lens through which all kinds of concerns about a changing world are projected. Whether the root concern is new technology, or deregulation – all of the economic insecurities that this new economy can produce tend to come together when the subject is trade.

That is why it is so essential that we work to equip workers with the education and skills to manage the transition process and to seize the opportunities that come with it. If we compare our time to that postwar period of remarkable American internationalism, the absence of a single, major threat is one major difference. A different kind of political process is another. I doubt anyone ever focus-grouped the Marshall Plan – and I am not sure how well it would have done if they had. But that postwar period was also a time when opportunity and protection was being given to the American middle class.

To a degree that historians have perhaps under-emphasized, 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. President Clinton had a clear understanding of these issues at the start of this Administration when he decided to establish the National Economic Council – a body that stands for the recognition that our domestic and our international economic policies will always be intertwined.

For all of these reasons, the case for vigorous United States engagement with the world and support for open markets is surely more difficult to make today than it was forty or fifty years ago. But the risks for our future capacity to lead the world – and to bequeath a safe and prosperous global economy to our children and their children – are every bit as great as they were then. Thank you.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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JOINT STATEMENT OF LAWRENCE H. SUMMERS, SECRETARY OF THE TREASURY AND JACOB J. LEW, DIRECTOR OF THE OFFICE OF MANAGEMENT AND BUDGET, ON BUDGET RESULTS FOR FISCAL YEAR 1999

SUMMARY

The Administration is today releasing the September Monthly Treasury Statement of Receipts and Outlays of the United States Government. The statement shows the actual financial totals for the fiscal year that ended September 30, 1999, as follows:

- a surplus of $122.7 billion;
- total outlays of $1,704.5 billion;
- total receipts of $1,827.3 billion; and
- an $88.3 billion reduction in the debt held by the public.

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Table 1. TOTAL OUTLAYS, RECEIPTS AND SURPLUS/DEFICIT (-)
(in billions of dollars)

	Outlays	Receipts	Surplus/Deficit (-) Unified	On-budget	Off-budget
1998 Actual	1,652.2	1,721.5	69.2	-29.9	99.2
1999:					
February Budget Estimate	1,727.1	1,806.3	79.3	-41.7	121.0
Mid-Session Review Estimate	1,727.5	1,826.3	98.8	-24.8	123.6
Actual	1,704.5	1,827.3	122.7	-1.0	123.7

NOTE: Detail may not add to totals or changes due to rounding.

SURPLUS

The FY 1999 unified surplus was $122.7 billion, or 1.4 percent of GDP. The surplus, almost twice the size of last year's, is the largest ever in nominal terms and the largest as a percentage of GDP since 1951. This is the first time there have been two consecutive years of surpluses since 1956-57. Excluding Social Security and the Postal Service, there was a small on-budget deficit of $1.0 billion, the smallest on-budget deficit since 1969.

This is the seventh consecutive year of improvement in the Federal budget since the deficit peaked at $290.4 billion, or 4.7 percent of GDP, in FY 1992. This is the longest series of improvements in budget outcomes in the history of the United States. Since 1992, thanks to strong economic growth and Federal Government downsizing and spending control, outlays have grown at an average annual rate of only 3.0 percent per year, less than half the average of 7.3 percent per year over the preceding 12 years, while receipts have advanced at a rate of 7.6 percent per year, faster than the 6.4 percent average from 1980 through 1992. As a result of this progress in eliminating the deficit, the debt held by the public has declined by $51.2 billion in FY 1998 and by $88.3 billion in FY 1999, and has come down to $3,633.3 billion at the end of FY 1999. As a share of the economy, the debt held by the public has declined for six consecutive fiscal years to 41.1 percent, and is now below its 1990 share of 42.4 percent. This string of six consecutive years of declining debt as a share of GDP is the longest since the period ending in 1967--more than 30 years ago.

The change from the Mid-Session Review (MSR) surplus estimate reflects:

- a $23.0 billion decrease in outlays; and
- a $0.9 billion increase in receipts.

OUTLAYS

Total outlays were $1,704.5 billion, $23.0 billion lower than the MSR estimate, continuing the spending restraint that has occurred since the beginning of this Administration. The major outlay changes since the MSR are described below. Table 2 displays actual outlays as well as estimates from the February Budget and the MSR by agency and major program.

Department of Defense - Military. Actual outlays for the Department of Defense - Military were $261.4 billion, $7.2 billion below the MSR estimate. The difference was due in large part to slower-than-anticipated spending from FY 1999 emergency supplementals. In the case of the FY 1999 Omnibus Consolidated and Emergency Supplemental Appropriations Act, some contingent emergency funds were released much later in the fiscal year than anticipated, resulting in some outlays occurring in FY 2000 rather than FY 1999. In regard to the Kosovo supplemental, the slowdown resulted from the conclusion of the Kosovo air campaign in June. Expenditures for military personnel pay and benefits also were lower than estimated because of shortfalls in meeting personnel recruitment and retention goals. This accounted for over one-third of DoD's total outlay shortfall.

Department of Health and Human Services. Actual outlays for the Department of Health and Human Services were $359.7 billion, $11.6 billion lower than the MSR estimate. Medicare outlays were $9.2 billion below the MSR estimate. About two-thirds of the lower Medicare outlays were due to a decrease in Hospital Insurance spending caused by lower-than-expected inpatient hospital admissions, home health agency visits, skilled nursing facility expenditures, and managed care enrollment. The rest of the lower Medicare outlays resulted from a decrease in Supplementary Medical Insurance spending due to lower-than-expected home health visits, managed care enrollment, and outpatient expenditures. The Department of Health and Human Services' and the Health Care Financing Administration's efforts to root out fraud, waste, and abuse in the Medicare program may also have contributed to the decline in Medicare spending. Outlays for Medicaid, the Children's Health Insurance Fund, discretionary health programs, and the Administration for Children and Families were also below the MSR estimate.

Department of Treasury. Actual outlays for the Department of the Treasury were $387.3 billion, $1.2 billion below the MSR estimate. Interest on the public debt was $1.1 billion below the MSR estimate. Roughly half of the difference, $0.6 billion, was from lower interest payments on debt held by the public that were caused, in part, by a substantially higher surplus. The other half of the difference, $0.5 billion, resulted from lower interest payments to trust funds. These reduced interest payments were offset, however, by lower interest payments received by trust funds. These reductions are shown elsewhere in the budget as lower undistributed offsetting receipts; therefore, together these two changes do not affect total outlays of the Federal Government.

For the first time since 1961, outlays for interest on the public debt were lower than the previous year. More specifically, outlays for interest on the public debt in FY 1999 were $353.5 billion, or $10.3 billion below the 1998 total of $363.8 billion.
This reduction is the largest in percentage terms since 1936 and is the largest ever in dollar terms. The lower interest costs resulted primarily from the budget surpluses in FY 1998 and FY 1999--which caused a decline of $139.5 billion in the debt held by the public--and the replacement of older debt with new debt at lower interest rates.

Undistributed offsetting receipts. Offsetting receipts are deducted from gross outlays in calculating net outlays; therefore, changes in these figures inversely affect outlays, but change the surplus in the same direction. Actual offsetting receipts totaled $159.1 billion, a decrease of $1.7 billion from the MSR estimate. The difference was largely due to $1.3 billion of interest on Outer Continental Shelf funds held in escrow because of a long-standing dispute between the State of Alaska and the Federal Government over the rights to certain offshore lands. The MSR assumed that the interest on the funds would be released to the Federal Government in FY 1999. This did not occur because mapping of the disputed lands is not yet completed.

RECEIPTS

Actual FY 1999 receipts were $1,827.3 billion, $0.9 billion higher than the MSR estimate. Lower-than-expected collections of individual income taxes were more than offset by higher-than-expected collections of corporation income taxes and social insurance and retirement receipts. Table 3 displays actual receipts and estimates from the Budget and MSR by source.

Individual income taxes were $879.5 billion, $7.2 billion lower than the MSR estimate. Most of the difference is attributable to unanticipated prior year accounting adjustments between individual income tax receipts and the receipts of the Medicare and Social Security trust funds. These adjustments reduced individual income taxes by $3.7 billion and increased receipts to the Social Security and Medicare trust funds by the same amount. In addition, higher-than-estimated withheld taxes of $1.9 billion were more than offset by $4.9 billion of lower-than-estimated payments of non-withheld taxes and higher-than-estimated refunds of $0.7 billion, reducing receipts by an additional $3.7 billion relative to the MSR. Congressional inaction on legislative proposals included in the MSR accounts for the remaining difference of $0.2 billion.

Corporation income taxes were $184.7 billion, $5.2 billion higher than the MSR estimate. Lower-than-anticipated refunds account for most of the increase in this source of receipts.

Social insurance and retirement receipts were $611.8 billion, $3.8 billion higher than the MSR estimate. Unanticipated prior year adjustments between individual income taxes and the receipts of the Medicare and Social Security trust funds account for most of the net increase in this source of receipts.

Table 2.--1999 BUDGET OUTLAYS BY AGENCY
(fiscal years; in millions of dollars)

Outlays by Major Agency	1998 Actual	1999 Estimate Budget	1999 Estimate Mid-Session	1999 Actual	Change, 1999 Actual from: Budget	Change, 1999 Actual from: Mid-Session
Legislative Branch	2,600	2,850	2,853	2,621	(229)	(232)
The Judiciary	3,463	3,913	3,912	3,793	(120)	(119)
Agriculture:						
Farm Service Agency:						
Commodity Credit Corporation	10,143	18,204	18,391	19,223	1,019	832
Other	278	40	307	285	245	(22)
Risk Management Agency (Federal Crop Insurance Corporation)	1,274	1,372	1,443	1,731	359	288
Foreign Agricultural Service	591	1,403	1,429	951	(452)	(478)
Food and Nutrition Service:						
Food stamps	20,141	21,204	19,846	19,051	(2,153)	(795)
Other	12,833	13,416	13,281	13,210	(206)	(71)
Forest Service	3,399	3,440	3,445	3,423	(17)	(22)
Other	5,289	4,333	4,536	5,011	678	475
Subtotal, Agriculture	53,950	63,412	62,678	62,885	(527)	207
Commerce	4,047	4,767	4,796	5,036	269	240
Defense-Military	256,124	263,556	268,570	261,379	(2,177)	(7,191)
Education:						
Office of Elementary and Secondary Education	10,720	10,458	11,061	10,907	449	(154)
Office of Postsecondary Education	11,928	14,100	13,461	12,794	(1,306)	(667)
Other	8,850	9,802	9,801	9,820	18	19
Subtotal, Education	31,498	34,360	34,323	33,521	(839)	(802)
Energy:						
Atomic energy defense activities	11,181	11,824	11,824	12,188	364	364
Other	3,263	3,720	3,720	3,891	171	171
Subtotal, Energy	14,444	15,544	15,544	16,079	535	535
Health and Human Services:						
Medicare (gross outlays)	213,569	226,282	221,197	212,019	(14,263)	(9,178)
Medicaid	101,234	108,534	108,592	108,043	(491)	(549)
Children's health insurance fund	5	1,437	987	565	(872)	(422)
Public Health Service	23,680	26,112	26,112	25,547	(565)	(565)
Temporary assistance for needy families and family support payments to States	15,456	15,848	16,971	16,918	1,070	(53)
Other Administration for Children and Families	17,134	18,042	18,042	17,574	(468)	(468)
Other	(20,506)	(20,723)	(20,641)	(20,964)	(241)	(323)
Subtotal, Health and Human Services	350,571	375,532	371,260	359,700	(15,832)	(11,560)

Table 2.--1999 BUDGET OUTLAYS BY AGENCY
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Outlays by Major Agency	1998 Actual	1999 Estimate Budget	1999 Estimate Mid-Session	1999 Actual	Change, 1999 Actual from: Budget	Change, 1999 Actual from: Mid-Session
Housing and Urban Development:						
Community development grants	4,621	4,964	4,735	4,804	(160)	69
Other	25,604	27,360	28,253	27,932	572	(321)
Subtotal, Housing and Urban Development	30,224	32,324	32,988	32,736	412	(252)
Interior	7,232	8,426	8,580	7,773	(653)	(807)
Justice	16,169	16,458	18,648	18,318	1,860	(330)
Labor:						
Training and employment services	4,644	5,152	5,152	4,675	(477)	(477)
Unemployment trust fund	23,408	26,405	24,769	24,870	(1,535)	101
Pension Benefit Guaranty Corporation	(1,218)	(843)	(843)	(665)	178	178
Other	3,169	4,209	3,807	3,579	(630)	(228)
Subtotal, Labor	30,002	34,923	32,885	32,459	(2,464)	(426)
State	5,373	6,791	7,034	6,464	(327)	(570)
Transportation:						
Federal Highway Administration	20,350	23,455	23,454	23,047	(408)	(407)
Federal Transit Administration	4,297	4,002	4,002	4,259	257	257
Federal Aviation Administration	9,242	9,398	9,428	9,507	109	79
Other	5,579	5,018	5,029	5,005	(13)	(24)
Subtotal, Transportation	39,467	41,873	41,913	41,819	(54)	(94)
Treasury:						
Exchange Stabilization Fund	(1,236)	(1,254)	(1,254)	(1,385)	(131)	(131)
Interest on the public debt	363,824	353,429	354,651	353,511	82	(1,140)
IRS:						
Earned income tax credit	23,239	26,273	25,884	25,632	(641)	(252)
Other	9,914	11,319	12,115	11,442	123	(673)
Other	(5,647)	(3,791)	(2,946)	(1,921)	1,870	1,025
Subtotal, Treasury	390,094	385,976	388,450	387,280	1,304	(1,170)

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Outlays by Major Agency	1998 Actual	1999 Estimate Budget	1999 Estimate Mid-Session	1999 Actual	Change, 1999 Actual from: Budget	Change, 1999 Actual from: Mid-Session
Department of Veterans Affairs:						
Veterans Health Administration	17,615	18,154	18,154	18,250	96	96
Other	24,160	25,320	25,759	24,918	(402)	(841)
Subtotal, Department of Veterans Affairs	41,776	43,474	43,913	43,169	(305)	(744)
Corps of Engineers	3,833	4,209	4,209	4,186	(23)	(23)
Other defense civil programs	31,216	32,311	32,311	32,008	(303)	(303)
Environmental Protection Agency	6,288	6,667	6,666	6,752	85	86
Executive Office of the President	236	374	387	416	42	29
Federal Emergency Management Agency	2,101	2,668	3,120	4,040	1,372	920
General Services Administration	1,095	328	361	(46)	(374)	(407)
International Assistance Programs:						
International Security Assistance:						
Foreign Military Financing	3,118	3,841	3,837	3,357	(484)	(480)
Economic Support Fund	2,461	2,201	2,275	2,349	148	74
Other	(630)	(438)	(234)	(310)	128	(76)
Agency for International Development	2,435	2,691	2,740	2,346	(345)	(394)
Multilateral assistance	1,850	1,725	1,768	1,857	132	89
Military sales programs	(163)	(36)	(36)	533	569	569
International monetary programs	(151)	22	22	(146)	(168)	(168)
Other	59	124	125	73	(51)	(52)
Subtotal, International Assistance Programs	8,980	10,130	10,497	10,059	(71)	(438)
National Aeronautics and Space Administration	14,206	14,043	14,043	13,664	(379)	(379)
National Science Foundation	3,188	3,259	3,259	3,285	26	26
Office of Personnel Management	46,307	48,266	48,268	47,515	(751)	(753)
Small Business Administration	(78)	(866)	(814)	58	924	872
Social Security Administration:						
Old age and survivors insurance (off-budget)	329,769	339,910	338,765	337,916	(1,994)	(849)
Disability insurance (off-budget)	49,459	52,704	51,919	52,142	(562)	223
Supplemental security income program	29,747	30,685	30,685	30,673	(12)	(12)
Other:						
On-budget	8,388	10,437	10,475	9,905	(532)	(570)
Off-budget	(9,160)	(11,298)	(11,335)	(10,845)	453	490
Subtotal, Social Security Administration	408,202	422,438	420,509	419,790	(2,648)	(719)
Other independent agencies:						
Major deposit insurance agencies:						
Federal Deposit Insurance Corporation:						
Bank insurance fund	(1,219)	(763)	(1,196)	(751)	12	445
Savings association insurance fund	(448)	(402)	(402)	(397)	5	5

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(fiscal years; in millions of dollars)

Outlays by Major Agency	1998 Actual	1999 Estimate Budget	1999 Estimate Mid-Session	1999 Actual	Change, 1999 Actual from: Budget	Change, 1999 Actual from: Mid-Session
FSLIC resolution fund (including RTC)	(2,484)	(3,658)	(3,839)	(3,583)	75	256
Other FDIC	29	35	35	28	(7)	(7)
Subtotal, Federal Deposit Insurance Corporation	(4,122)	(4,788)	(5,402)	(4,702)	86	700
National Credit Union Administration	(212)	(247)	(247)	(261)	(14)	(14)
Subtotal, major deposit insurance agencies	(4,334)	(5,035)	(5,649)	(4,963)	72	686
District of Columbia	768	(2,480)	(2,293)	(2,690)	(210)	(397)
Export-Import Bank	(208)	(257)	(442)	(168)	89	274
Federal Communications Commission:						
Universal service fund	1,769	3,770	4,748	3,293	(477)	(1,455)
Spectrum auction subsidies	4,810	---	---	1,369	1,369	1,369
Other	0	(6)	(6)	(32)	(26)	(26)
Subtotal, Federal Communications Commission	6,579	3,764	4,742	4,630	866	(112)
Postal Service:						
On-budget	86	29	29	29	---	---
Off-budget	217	964	964	1,021	57	57
Subtotal, Postal Service	303	993	993	1,050	57	57
Railroad Retirement Board	4,837	5,014	4,707	4,830	(184)	123
Securities and Exchange Commission	(231)	(43)	(212)	(255)	(212)	(43)
Tennessee Valley Authority	(784)	(418)	(218)	2	420	220
Other (net)	3,723	4,803	4,854	4,429	(374)	(425)
Subtotal, other independent agencies	10,653	6,341	6,482	6,865	524	383
Allowances	---	3,118	632	---	(3,118)	(632)
Undistributed offsetting receipts:						
Employer share, employee retirement (on-budget)	(27,819)	(28,103)	(28,112)	(28,209)	(106)	(97)
Employer share, employee retirement (off-budget)	(7,052)	(7,355)	(7,386)	(7,385)	(30)	1
Interest received by on-budget trust funds	(67,210)	(67,233)	(66,996)	(66,563)	670	433
Interest received by off-budget trust funds	(46,630)	(51,869)	(52,108)	(52,071)	(202)	37
Rents and royalties on the Outer Continental Shelf lands	(4,522)	(3,123)	(3,442)	(3,098)	25	344
Sale of major assets	(5,158)	---	---	---	---	---
Spectrum auction receipts	(2,642)	(1,447)	(1,447)	(1,753)	(306)	(306)
Outer Continental shelf receipts escrow interest and other	(3)	(1,264)	(1,284)	(1)	1,263	1,283
Subtotal, undistributed offsetting receipts	(161,036)	(160,394)	(160,775)	(159,080)	1,314	1,695
Total, Outlays	1,652,224	1,727,071	1,727,502	1,704,545	(22,526)	(22,957)
On-budget	1,335,622	1,404,015	1,406,683	1,383,767	(20,248)	(22,916)
Off-budget	316,602	323,056	320,819	320,778	(2,278)	(41)
Deficit (-) / Surplus (+)	69,242	79,263	98,838	122,740	43,477	23,902
On-budget	(29,956)	(41,717)	(24,759)	(951)	40,766	23,808
Off-budget	99,198	120,980	123,597	123,691	2,711	94

NOTE: Detail may not add to totals or changes due to rounding.

Table 3.--1999 BUDGET RECEIPTS BY SOURCE
(fiscal years; in millions of dollars)

Receipts by Source	1998 Actual	1999 Estimate Budget	1999 Estimate Mid-Session	1999 Actual	Change, 1999 Actual from: Budget	Change, 1999 Actual from: Mid-Session
Individual income taxes	828,587	868,945	886,657	879,480	10,535	(7,177)
Corporation income taxes	188,677	182,210	179,494	184,680	2,470	5,186
Social insurance and retirement receipts:						
Employment and general retirement:						
On-budget	124,215	131,704	132,567	136,411	4,707	3,844
Off-budget	415,800	444,036	444,416	444,468	432	52
Subtotal, Employment and general retirement	540,015	575,740	576,983	580,880	5,140	3,897
Unemployment insurance	27,484	28,765	26,719	26,480	(2,285)	(239)
Other retirement contributions	4,335	4,319	4,319	4,472	153	153
Subtotal, Social insurance and retirement receipts	571,835	608,824	608,021	611,832	3,008	3,811
Excise taxes	57,669	68,075	70,655	70,399	2,324	(256)
Estate and gift taxes	24,076	25,932	28,441	27,782	1,850	(659)
Customs duties	18,297	17,654	17,994	18,336	682	342
Miscellaneous receipts	32,325	34,694	35,078	34,777	83	(301)
Total, Receipts	1,721,465	1,806,334	1,826,340	1,827,285	20,951	945
On-budget	1,305,666	1,362,298	1,381,924	1,382,817	20,519	893
Off-budget	415,800	444,036	444,416	444,468	432	52

NOTE: Detail may not add to totals or changes due to rounding.

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NOTE: Detail may not add to totals or changes due to rounding.

Final Monthly Treasury Statement

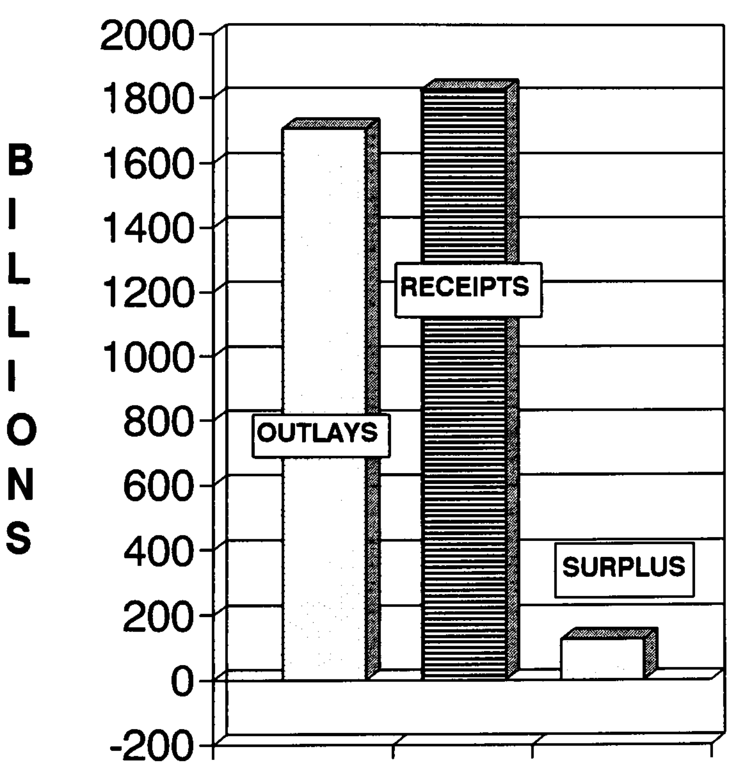
of Receipts and Outlays
of the United States Government

For Fiscal Year 1999 Through **September 30, 1999,** and Other Periods

Highlight

This issue includes the final budget results and details the surplus of $122.7 billion for Fiscal Year 1999.

**RECEIPTS, OUTLAYS, AND SURPLUS/DEFICIT
THROUGH SEPTEMBER 1999**



Contents

Compiled and Published by

Department of the Treasury
Financial Management Service

Introduction

The *Monthly Treasury Statement of Receipts and Outlays of the United States Government (MTS)* is prepared by the Financial Management Service, Department of the Treasury, and after approval by the Fiscal Assistant Secretary of the Treasury, is normally released on the 15th workday of the month following the reporting month. The publication is based on data provided by Federal entities, disbursing officers, and Federal Reserve banks.

Audience

The *MTS* is published to meet the needs of: Those responsible for or interested in the cash position of the Treasury; Those who are responsible for or interested in the Government's budget results; and individuals and businesses whose operations depend upon or are related to the Government's financial operations.

Disclosure Statement

This statement summarizes the financial activities of the Federal Government and off-budget Federal entities conducted in accordance with the Budget of the U.S. Government, i.e., receipts and outlays of funds, the surplus or deficit, and the means of financing the deficit or disposing of the surplus. Information is presented on a modified cash basis: receipts are accounted for on the basis of collections; refunds of receipts are treated as deductions from gross receipts; revolving and management fund receipts, reimbursements and refunds of monies previously expended are treated as deductions from gross outlays; and interest on the public debt (public issues) is recognized on the accrual basis. Major information sources include accounting data reported by Federal entities, disbursing officers, and Federal Reserve banks.

Triad of Publications

The *MTS* is part of a triad of Treasury financial reports. The *Daily Treasury Statement* is published each working day of the Federal Government. It provides data on the cash and debt operations of the Treasury based upon reporting of the Treasury account balances by Federal Reserve banks. The *MTS* is a report of Government receipts and outlays, based on agency reporting. The *U.S. Government Annual Report* is the official publication of the detailed receipts and outlays of the Government. It is published annually in accordance with legislative mandates given to the Secretary of the Treasury.

Data Sources and Information

The Explanatory Notes section of this publication provides information concerning the flow of data into the *MTS* and sources of information relevant to the *MTS*.

Table 1. Summary of Receipts, Outlays, and the Deficit/Surplus of the U.S. Government, Fiscal Years 1998 and 1999, by Month

[$ millions]

Period	Receipts	Outlays	Deficit/Surplus (−)
FY 1998			
October	114,898	150,866	35,968
November	103,481	120,830	17,349
December	167,998	154,359	−13,639
January	162,610	137,231	−25,379
February	97,952	139,701	41,750
March	117,930	131,743	13,813
April	261,002	136,400	−124,603
May	95,278	134,057	38,779
June	187,858	136,752	−51,106
July	119,723	143,807	24,084
August	111,741	122,907	11,166
September	180,995	143,569	−37,425
Year-to-Date	**[1]1,721,465**	**[1]1,652,224**	**[1]-69,242**
FY 1999			
October	119,974	152,413	32,440
November	113,978	130,915	16,937
December	178,646	183,803	5,156
January	[2]171,728	[2]101,223	−70,505
February	[2]99,502	[2]141,847	42,345
March	[2]130,416	[2]152,825	22,409
April	[2]266,229	[2]152,770	−113,459
May	[2]98,663	[2]122,631	23,969
June	[2]199,507	[2]145,939	−53,568
July	[2]121,923	[2]147,086	25,164
August	[2]126,324	[2,3]129,127	2,803
September	200,396	143,966	−56,430
Year-to-Date	**1,827,285**	**1,704,545**	**−122,740**

[1]The receipt, outlay and deficit figures differ from the *FY 2000 Budget*, released by the Office of Management and Budget on February 1, 1999 by −$4 million due mainly to revisions in the data following the release of the Final September Monthly Treasury Statement.

[2]Outlays have been increased and refunds of taxes decreased by $5 million, $88 million, $124 million, $87 million, $76 million, $28 million, $18 million, and $10 million, respectively, for January 1999 through August 1999 to reflect additional reporting for payments where child care credits exceed the liability for tax.

[3]Outlays have been increased by $289 million in August 1999 to reflect an adjustment by the Small Business Administration.

Note: Details may not add to totals due to rounding.

Table 2. Summary of Budget and Off-Budget Results and Financing of the U.S. Government, September 1999 and Other Periods

[$ millions]

Classification	This Month	Current Fiscal Year to Date	Budget Estimates Full Fiscal Year[1]	Prior Fiscal Year to Date (1998)	Budget Estimates Next Fiscal Year (2000)[1]
Total on-budget and off-budget results:					
Total receipts	200,396	1,827,285	1,826,340	1,721,465	1,914,223
On-budget receipts	161,304	1,382,817	1,381,924	1,305,666	1,444,820
Off-budget receipts	39,093	444,468	444,416	415,800	469,403
Total outlays	143,966	1,704,545	1,727,502	1,652,224	1,771,743
On-budget outlays	108,846	1,383,767	1,406,683	1,335,622	1,439,730
Off-budget outlays	35,120	320,778	320,819	316,602	332,013
Total surplus (+) or deficit (−)	+56,430	+122,740	+98,838	+69,242	+142,480
On-budget surplus (+) or deficit (−)	+52,458	−951	−24,759	−29,956	+5,090
Off-budget surplus (+) or deficit (−)	+3,973	+123,691	+123,597	+99,198	+137,390
Total on-budget and off-budget financing	−56,430	−122,740	−98,838	−69,242	−142,480
Means of financing:					
Borrowing from the public	−47,718	−88,323	−66,831	−51,211	−121,944
Reduction of operating cash, increase (−)	−20,069	−17,580	−6,122	4,743	......
By other means	11,356	−16,837	−25,885	−22,774	−20,536

[1]These figures are based on the *Mid-Session Review of the FY 2000 Budget*, released by the Office of Management and Budget on June 28, 1999.

... No Transactions.
Note: Details may not add to totals due to rounding.

Figure 1. Monthly Receipts, Outlays, and Budget Deficit/Surplus of the U.S. Government, Fiscal Years 1998 and 1999

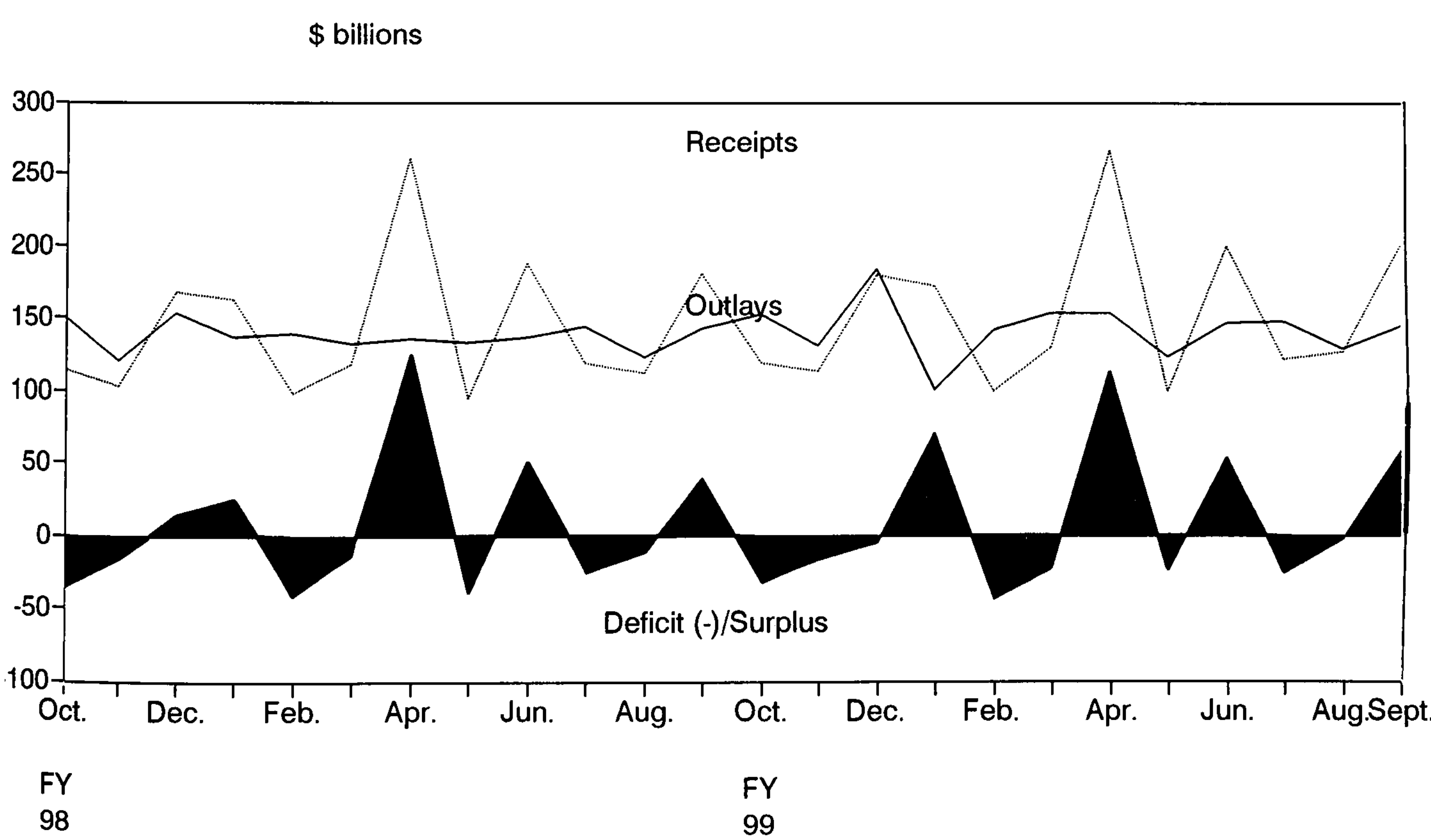


Figure 2. Monthly Receipts of the U.S. Government, by Source, Fiscal Years 1998 and 1999

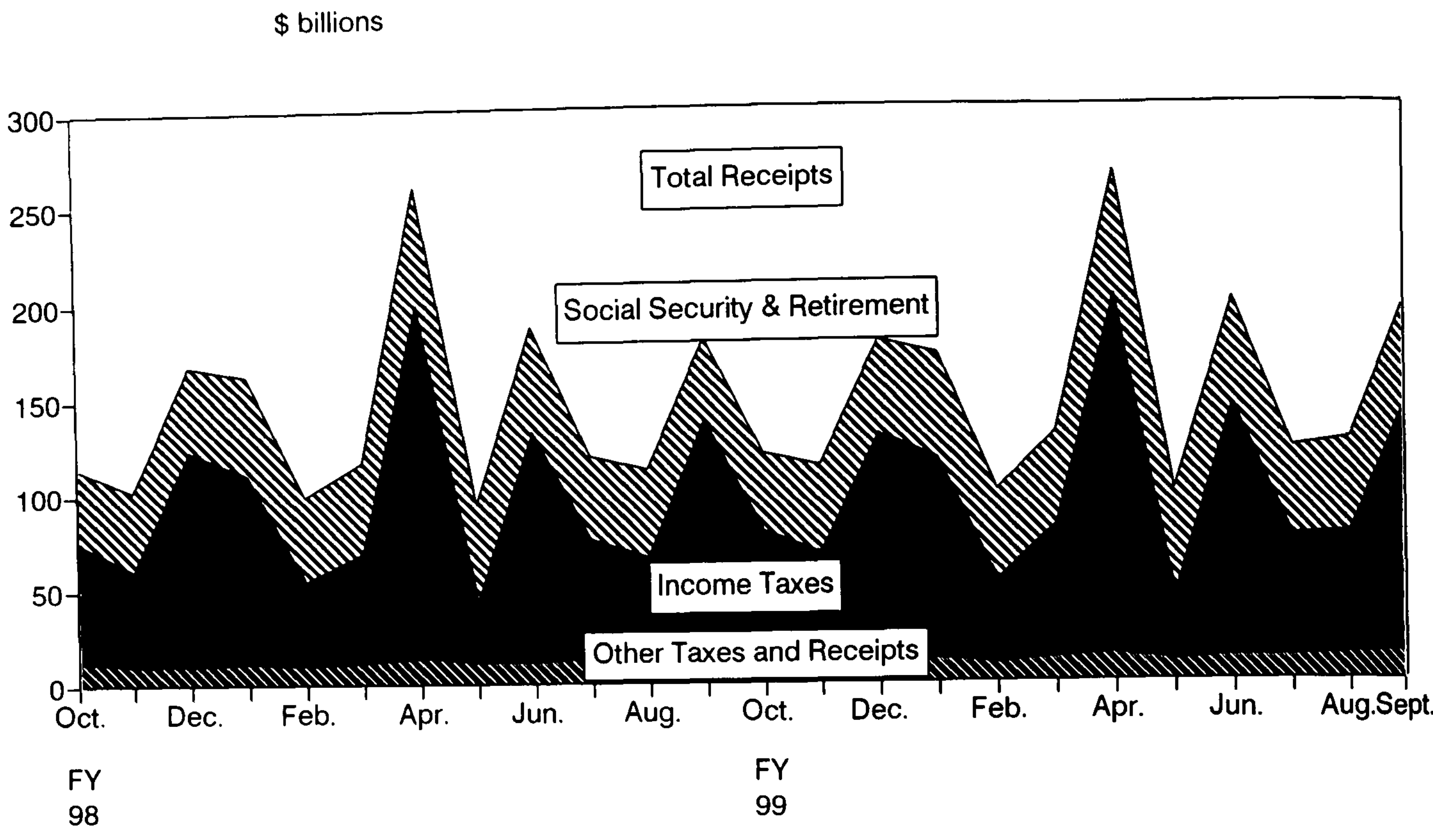


Figure 3. Monthly Outlays of the U.S. Government, by Function, Fiscal Years 1998 and 1999

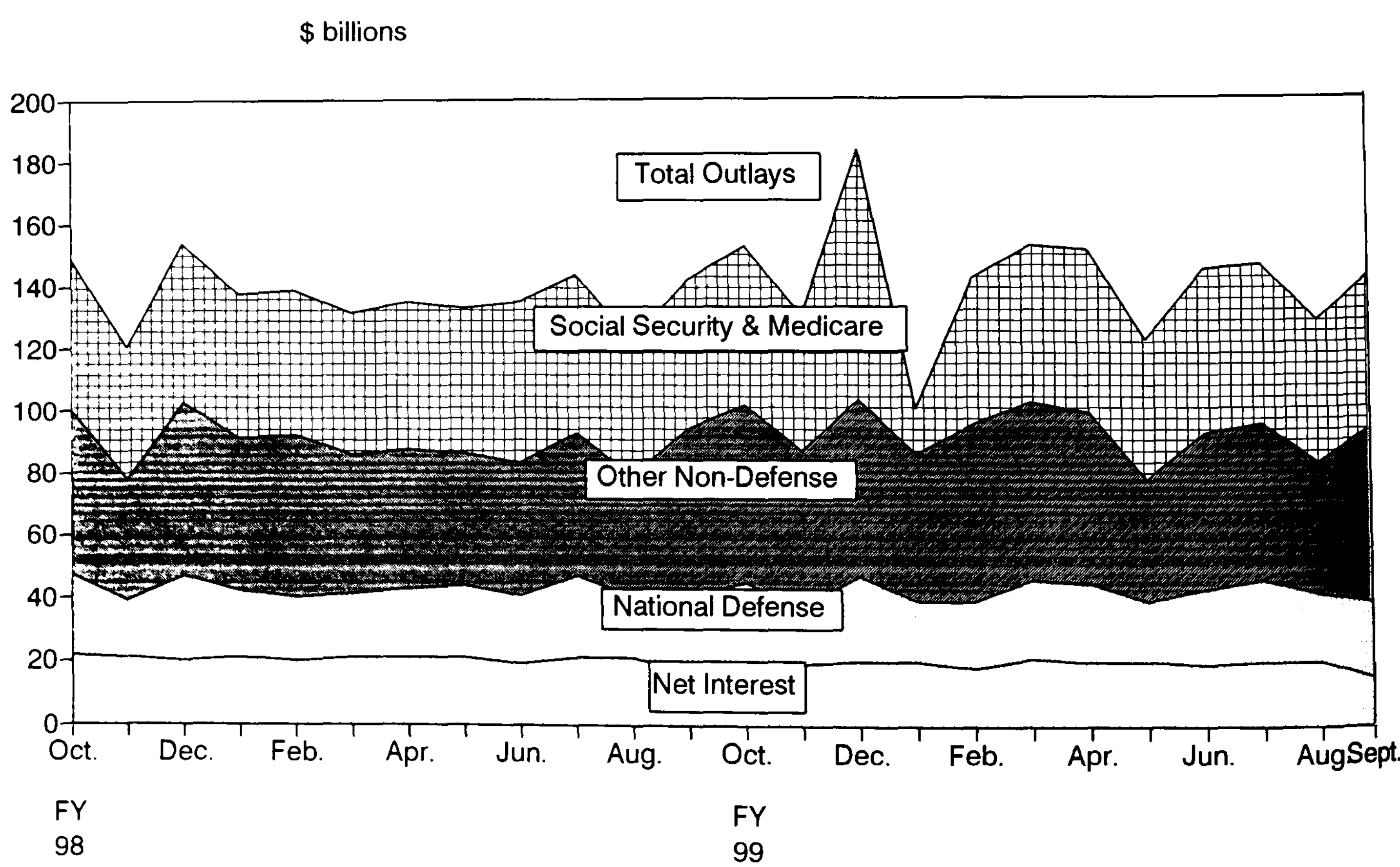


Table 3. Summary of Receipts and Outlays of the U.S. Government, September 1999 and Other Periods

[$ millions]

Classification	This Month	Current Fiscal Year to Date	Comparable Prior Period	Budget Estimates Full Fiscal Year[1]
Budget Receipts				
Individual income taxes	89,250	[2]879,480	828,587	886,657
Corporation income taxes	40,235	184,680	188,677	179,494
Social insurance and retirement receipts:				
Employment and general retirement (off-budget)	39,093	444,468	415,800	444,416
Employment and general retirement (on-budget)	15,701	136,411	124,215	132,567
Unemployment insurance	332	26,480	27,484	26,719
Other retirement	356	4,472	4,335	4,319
Excise taxes	7,167	70,399	57,669	70,655
Estate and gift taxes	2,294	27,782	24,076	28,441
Customs duties	1,727	18,336	18,297	17,994
Miscellaneous receipts	4,242	34,777	32,325	35,078
Total Receipts	**200,396**	**1,827,285**	**1,721,465**	**1,826,340**
(On-budget)	**161,304**	**1,382,817**	**1,305,666**	**1,381,924**
(Off-budget)	**39,093**	**444,468**	**415,800**	**444,416**
Budget Outlays				
Legislative Branch	201	2,621	2,600	2,853
Judicial Branch	317	3,793	3,463	3,912
Department of Agriculture	4,399	62,885	53,950	62,678
Department of Commerce	460	5,036	4,047	4,796
Department of Defense—Military	22,951	261,379	256,124	268,570
Department of Education	3,492	33,521	31,498	34,323
Department of Energy	1,551	16,079	14,444	15,544
Department of Health and Human Services	31,187	[3]359,700	350,571	371,260
Department of Housing and Urban Development	4,776	32,736	30,224	32,988
Department of the Interior	805	7,773	7,232	8,580
Department of Justice	1,661	18,318	16,169	18,648
Department of Labor	2,656	32,459	30,002	32,885
Department of State	497	6,464	5,373	7,034
Department of Transportation	4,519	41,819	39,467	41,913
Department of the Treasury:				
Interest on the Public Debt	19,785	353,511	363,824	354,651
Other	−2,106	[2,3]33,769	26,270	33,799
Department of Veterans Affairs	3,633	43,169	41,776	43,913
Corps of Engineers	490	4,186	3,833	4,209
Other Defense Civil Programs	2,662	32,008	31,216	32,311
Environmental Protection Agency	609	6,752	6,288	6,666
Executive Office of the President	21	416	236	387
Federal Emergency Management Agency	151	4,040	2,101	3,120
General Services Administration	−69	−46	1,095	361
International Assistance Program	760	10,059	8,980	10,497
National Aeronautics and Space Administration	1,261	13,664	14,206	14,043
National Science Foundation	299	3,285	3,188	3,259
Office of Personnel Management	4,363	47,515	46,307	48,268
Small Business Administration	249	[4]58	−78	−814
Social Security Administration	35,019	419,790	408,202	420,509
Other independent agencies	5,582	6,865	10,653	6,482
Allowances	......	......	......	632
Undistributed offsetting receipts:				
Interest	−1,052	−118,634	−113,839	−120,388
Other	−7,164	−40,446	−47,197	−40,387
Total outlays	**143,966**	**1,704,545**	**1,652,224**	**1,727,502**
(On-budget)	**108,846**	**1,383,767**	**1,335,622**	**1,406,683**
(Off-budget)	**35,120**	**320,778**	**316,602**	**320,819**
Surplus (+) or deficit (−)	**+56,430**	**+122,740**	**+69,242**	**+98,838**
(On-budget)	**+52,458**	**−951**	**−29,956**	**−24,759**
(Off-budget)	**+3,973**	**+123,691**	**+99,198**	**+123,597**

[1]These figures are based on the *Mid-Session Review of the FY 2000 Budget*, released by the Office of Management and Budget on June 28, 1999.

[2]Outlays have been increased and refunds of taxes decreased by $435 million for January 1999 through August 1999 to reflect additional reporting for payments where child care credits exceed the liability for tax.

[3]Outlays for the Department of Health and Human Services have been increased by $2 million and outlays for the Department of the Treasury — Other have subsequently been decreased by $2 million in September 1998 to reflect an adjustment by the Department of Health and Human Services.

[4]Outlays have been increased by $289 million in August 1999 to reflect an adjustment by the Small Business Administration.

... No Transactions.

Note: Details may not add to totals due to rounding.

Table 4. Receipts of the U.S. Government, September 1999 and Other Periods

[$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Receipts	Refunds (Deduct)	Receipts	Gross Receipts	Refunds (Deduct)	Receipts	Gross Receipts	Refunds (Deduct)	Receipts
Individual income taxes:									
Withheld	[1]49,244			693,940			646,472		
Presidential Election Campaign Fund	1			61			63		
Other	[1]43,077			308,185			281,527		
Total—Individual income taxes	**92,322**	**3,072**	**89,250**	**1,002,186**	**[2]122,706**	**879,480**	**928,063**	**99,476**	**828,587**
Corporation income taxes	**42,571**	**2,336**	**40,235**	**216,325**	**31,645**	**184,680**	**213,270**	**24,593**	**188,677**
Social insurance and retirement receipts:									
Employment and general retirement:									
Federal old-age and survivors ins. trust fund:									
Federal Insurance Contributions Act taxes	[1]31,502	1,301	30,201	364,423	1,301	363,122	340,188	1,778	338,410
Self-Employment Contributions Act taxes	[1]3,528	......	3,528	20,437	......	20,437	20,379	......	20,379
Deposits by States	......	......	......	(* *)	......	(* *)	−5	......	−5
Total—FOASI trust fund	35,029	1,301	33,728	384,860	1,301	383,559	360,562	1,778	358,784
Federal disability insurance trust fund:									
Federal Insurance Contributions Act taxes	[1]5,008	206	4,803	57,891	206	57,685	54,076	293	53,783
Self-Employment Contributions Act taxes	[1]562	......	562	3,224	......	3,224	3,233	......	3,233
Deposits by States	......	......	......	(* *)	......	(* *)	−1	......	−1
Total—FDI trust fund	5,570	206	5,364	61,115	206	60,910	57,309	293	57,016
Federal hospital insurance trust fund:									
Federal Insurance Contributions Act taxes	[1]13,887	......	13,887	123,360	......	123,360	110,455	......	110,455
Self-Employment Contributions Act taxes	[1]1,475	......	1,475	8,520	......	8,520	9,029	......	9,029
Receipts from Railroad Retirement Board	......	......	......	388	......	388	381	......	381
Deposits by States	......	......	......	(* *)	......	(* *)	−2	......	−2
Total—FHI trust fund	15,362	......	15,362	132,268	......	132,268	119,863	......	119,863
Railroad retirement:									
Rail industry pension fund	180	1	179	2,633	4	2,629	2,599	16	2,583
Railroad Social Security equivalent benefit	160	1	160	1,517	3	1,514	1,782	12	1,770
Total—Employment and general retirement	56,302	1,508	54,794	582,394	1,514	580,880	542,114	2,098	540,015
Unemployment insurance:									
Deposits by States	296	......	296	19,894	......	19,894	21,047	......	21,047
Federal Unemployment Tax Act taxes	39	3	36	6,650	175	6,475	6,479	111	6,369
Railroad unemployment taxes	(* *)	......	(* *)	111	......	111	68	......	68
Total—Unemployment insurance	335	3	332	26,655	175	26,480	27,595	111	27,484
Other retirement:									
Federal employees retirement – employee share	348	......	348	4,399	......	4,399	4,261	......	4,261
Non-federal employees retirement	8	......	8	73	......	73	74	......	74
Total—Other retirement	356	......	356	4,472	......	4,472	4,335	......	4,335
Total—Social insurance and retirement receipts	**56,993**	**1,511**	**55,481**	**613,522**	**1,690**	**611,832**	**574,044**	**2,209**	**571,835**
Excise taxes:									
Miscellaneous excise taxes	1,475	−234	1,710	20,760	524	20,236	23,008	714	22,294
Airport and airway trust fund	1,162	6	1,156	10,395	4	10,391	8,154	43	8,111
Highway trust fund	4,702	448	4,254	40,325	1,148	39,177	27,433	805	26,628
Black lung disability trust fund	48	......	48	596	......	596	636	......	636
Total—Excise taxes	**7,387**	**220**	**7,167**	**72,076**	**1,676**	**70,399**	**59,231**	**1,562**	**57,669**
Estate and gift taxes	**2,348**	**54**	**2,294**	**28,386**	**603**	**27,782**	**24,631**	**555**	**24,076**
Customs duties	**1,788**	**61**	**1,727**	**19,486**	**1,150**	**18,336**	**19,689**	**1,392**	**18,297**
Miscellaneous Receipts:									
Deposits of earnings by Federal Reserve Banks	2,789	......	2,789	25,917	......	25,917	24,540	......	24,540
Universal service fund	366	......	366	3,752	......	3,752	2,759	......	2,759
All other	1,096	9	1,087	5,848	740	5,108	5,073	46	5,027
Total — Miscellaneous receipts	**4,251**	**9**	**4,242**	**35,516**	**740**	**34,777**	**32,371**	**46**	**32,325**
Total — Receipts	**207,659**	**7,262**	**200,396**	**1,987,496**	**160,211**	**1,827,285**	**1,851,299**	**129,834**	**1,721,465**
Total — On-budget	**167,059**	**5,756**	**161,304**	**1,541,521**	**158,704**	**1,382,817**	**1,433,429**	**127,763**	**1,305,666**
Total — Off-budget	**40,599**	**1,507**	**39,093**	**445,975**	**1,507**	**444,468**	**417,871**	**2,071**	**415,800**

[1]Outlays have been increased and refunds of taxes decreased by $435 million for January 1999 through August 1999 to reflect additional reporting for payments where child care credits exceed the liability for tax

[2]In accordance with the Social Security Act as amended: "Individual income taxes, Withheld" have been decreased and "Federal Insurance Contribution Act Taxes "correspondingly increased by $4,010 million to correct estimates for the quarter ending September 30, 1998. "Individual income taxes Withheld" have also been increased and "Federal Insurance Contribution Act Taxes" correspondingly decreased by $42 million to correct estimates for calendar year 1998 and prior. "Individual income taxes, Other" have been decreased and "Self-Employment Contribution Act Taxes" correspondingly increased by $132 million to correct estimates for calendar year 1996 and prior.

... No Transactions.

(* *) Less than $500,000.

Note: Details may not add to totals due to rounding.

Table 5. Outlays of the U.S. Government, September 1999 and Other Periods

[$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Legislative Branch:									
Senate	45	(* *)	45	485	2	483	454	2	452
House of Representatives	68	(* *)	68	796	2	794	784	1	783
Joint items	8	......	8	105	......	105	90	......	90
Congressional Budget Office	2	......	2	24	......	24	23	......	23
Architect of the Capitol	17	1	16	190	9	180	166	8	157
Library of Congress	35	1	34	567	3	565	641	4	637
Government Printing Office	−5	......	−5	95	......	95	108	......	108
General Accounting Office	29	......	29	360	......	360	345	......	345
United States Tax Court	3	......	3	33	......	33	32	......	32
Other Legislative Branch agencies	2	......	2	20	......	20	10	......	10
Proprietary receipts from the public	......	−3	3	......	10	−10	......	3	−3
Intrabudgetary transactions	−3	......	−3	−28	......	−28	−33	......	−33
Total—Legislative Branch	**201**	**(* *)**	**201**	**2,646**	**26**	**2,621**	**2,620**	**20**	**2,600**
Judicial Branch:									
Supreme Court of the United States	3	......	3	33	......	33	30	......	30
Courts of Appeals, District Courts, and other judicial services	311	......	311	3,808	......	3,808	3,479	......	3,479
Other	6	......	6	218	......	218	196	......	196
Proprietary receipts from the public	......	(* *)	(* *)	......	14	−14	......	11	−11
Intrabudgetary transactions	−3	......	−3	−252	......	−252	−230	......	−230
Total—Judicial Branch	**317**	**(* *)**	**317**	**3,807**	**14**	**3,793**	**3,474**	**11**	**3,463**
Department of Agriculture:									
Agricultural Research Service	79	......	79	847	......	847	782	......	782
Cooperative State Research, Education, and Extension Service:									
Research and education activities	40	......	40	429	......	429	430	......	430
Extension activities	37	......	37	407	......	407	413	......	413
Other	2	......	2	41	......	41	61	......	61
Animal and Plant Health Inspection Service	71	......	71	612	......	612	526	......	526
Food Safety and Inspection Service	47	......	47	604	......	604	597	......	597
Agricultural Marketing Service	86	......	86	1,017	1	1,016	668	3	665
Risk Management Agency:									
Administrative and operating expenses	8	......	8	54	......	54	243	......	243
Federal crop insurance corporation fund	308	2	306	2,299	622	1,677	1,566	535	1,031
Farm Service Agency:									
Salaries and expenses	96	......	96	768	......	768	714	......	714
Commodity Credit Corporation	1,464	1,064	401	29,079	9,856	19,223	18,875	8,732	10,143
Agricultural credit insurance fund	10	40	−30	464	1,060	−596	672	1,199	−527
Other	6	......	6	112	......	112	92	......	92
Total—Farm Service Agency	1,577	1,104	473	30,424	10,916	19,508	20,352	9,931	10,421
Natural Resources Conservation Service:									
Conservation operations	53	......	53	657	......	657	596	......	596
Other	34	......	34	295	......	295	320	......	320
Rural Development	53	......	53	679	......	679	580	......	580
Rural Housing Service:									
Rural housing insurance fund	126	177	−51	1,872	2,172	−300	2,091	2,274	−183
Rental assistance program	46	......	46	555	......	555	533	......	533
Other	68	......	68	146	......	146	126	......	126
Rural Utilities Service:									
Rural electrification and telecommunications fund	464	392	72	2,327	2,788	−461	3,287	2,953	334
Rural Development insurance fund	38	28	11	627	541	86	629	598	31
Other	5	48	−44	72	320	−247	80	232	−152
Foreign Agricultural Service	197	......	197	951	......	951	591	......	591
Food and Nutrition Service:									
Food stamp program	1,740	......	1,740	19,051	......	19,051	20,141	......	20,141
Child nutrition programs	429	......	429	8,878	......	8,878	8,565	......	8,565
Women, infants and children programs	233	......	233	3,942	......	3,942	3,902	......	3,902
Other	23	......	23	390	......	390	366	......	366
Total—Food and Nutrition Service	2,425	......	2,425	32,261	......	32,261	32,975	......	32,975
Forest Service:									
National forest system	86	......	86	1,251	......	1,251	1,467	......	1,467
Wildland fire management	177	......	177	824	......	824	577	......	577
Forest service permanent appropriations	50	......	50	366	......	366	334	......	334
Other	119	......	119	981	......	981	1,022	......	1,022
Total—Forest Service	432	......	432	3,423	......	3,423	3,399	......	3,399
Other	38	4	34	659	42	617	639	35	604
Proprietary receipts from the public	......	77	−77	......	967	−967	......	969	−969
Intrabudgetary transactions	−4	......	−4	−5	......	−5	−5	......	−5
Total—Department of Agriculture	**6,230**	**1,831**	**4,399**	**81,253**	**18,369**	**62,885**	**71,479**	**17,529**	**53,950**

Table 5. Outlays of the U.S. Government, September 1999 and Other Periods—Continued

[$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Department of Commerce:									
Economic Development Administration	40	(* *)	40	387	11	376	393	8	385
Bureau of the Census	108	......	108	1,131	......	1,131	542	......	542
Promotion of Industry and Commerce	34	......	34	374	......	374	364	......	364
Science and Technology:									
National Oceanic and Atmospheric Administration	220	10	210	2,413	25	2,388	2,126	17	2,108
National Institute of Standards and Technology	52	......	52	660	......	660	668	......	668
Other	3	2	1	35	25	10	43	31	12
Total—Science and Technology	275	12	263	3,107	49	3,058	2,837	49	2,788
Other	15	(* *)	15	113	4	110	106	4	102
Proprietary receipts from the public	......	(* *)	(* *)	......	13	−13	......	135	−135
Intrabudgetary transactions	(* *)	......	(* *)	(* *)	......	(* *)	(* *)	......	(* *)
Total—Department of Commerce	**473**	**13**	**460**	**5,112**	**76**	**5,036**	**4,242**	**195**	**4,047**
Department of Defense—Military:									
Military Personnel:									
Department of the Army	2,110	......	2,110	26,038	......	26,038	25,809	......	25,809
Department of the Navy	2,130	......	2,130	24,341	......	24,341	24,116	......	24,116
Department of the Air Force	1,658	......	1,658	19,124	......	19,124	19,051	......	19,051
Total—Military Personnel	5,898	......	5,898	69,503	......	69,503	68,976	......	68,976
Operation and Maintenance:									
Department of the Army	2,757	......	2,757	23,711	......	23,711	22,498	......	22,498
Department of the Navy	2,968	......	2,968	24,630	......	24,630	25,002	......	25,002
Department of the Air Force	2,545	......	2,545	25,451	......	25,451	24,168	......	24,168
Defense agencies	2,625	......	2,625	22,628	......	22,628	21,805	......	21,805
Total—Operation and Maintenance	10,895	......	10,895	96,420	......	96,420	93,473	......	93,473
Procurement:									
Department of the Army	901	......	901	8,632	......	8,632	8,243	......	8,243
Department of the Navy	1,569	......	1,569	18,351	......	18,351	18,228	......	18,228
Department of the Air Force	1,199	......	1,199	18,385	......	18,385	18,052	......	18,052
Defense agencies	359	......	359	3,457	......	3,457	3,684	......	3,684
Total—Procurement	4,028	......	4,028	48,824	......	48,824	48,207	......	48,207
Research, Development, Test, and Evaluation:									
Department of the Army	507	......	507	5,027	......	5,027	4,881	......	4,881
Department of the Navy	723	......	723	8,052	......	8,052	7,837	......	7,837
Department of the Air Force	1,119	......	1,119	14,171	......	14,171	14,499	......	14,499
Defense agencies	1,015	......	1,015	10,112	......	10,112	10,204	......	10,204
Total—Research, Development, Test, and Evaluation	3,365	......	3,365	37,362	......	37,362	37,421	......	37,421
Military Construction:									
Department of the Army	36	......	36	1,017	......	1,017	914	......	914
Department of the Navy	67	......	67	722	......	722	785	......	785
Department of the Air Force	101	......	101	965	......	965	1,063	......	1,063
Defense agencies	355	......	355	2,815	......	2,815	3,286	......	3,286
Total—Military Construction	559	......	559	5,519	......	5,519	6,046	......	6,046
Family Housing:									
Department of the Army	130	......	130	1,255	......	1,255	1,288	......	1,288
Department of the Navy	138	......	138	1,330	......	1,330	1,429	......	1,429
Department of the Air Force	121	......	121	1,029	......	1,029	1,054	......	1,054
Defense agencies	12	......	12	123	44	79	162	63	99
Revolving and Management Funds:									
Department of the Army	−8	......	−8	−47	......	−47	−116	......	−116
Department of the Navy	197	......	197	1,154	......	1,154	1,514	......	1,514
Defense agencies:									
Working capital fund	−301	......	−301	66	......	66	−753	......	−753
Other	−101	(* *)	−101	−287	1	−288	−314	3	−317
Trust funds:									
Department of the Army	(* *)	......	(* *)	8	......	8	3	......	3
Department of the Navy	1	......	1	30	......	30	27	(* *)	27
Department of the Air Force	4	4	(* *)	17	17	1	12	11	1
Defense agencies	18	......	18	256	......	256	262	......	262
Proprietary receipts from the public:									
Department of the Army	......	731	−731	......	199	−199	......	123	−123
Department of the Navy	......	348	−348	......	−71	71	......	1,340	−1,340
Department of the Air Force	......	−61	61	......	249	−249	......	410	−410
Defense agencies	......	254	−254	......	580	−580	......	442	−442

Table 5. Outlays of the U.S. Government, September 1999 and Other Periods—Continued

[$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Department of Defense—Military:—Continued									
Intrabudgetary transactions:									
Department of the Army	−107	......	−107	......	......	......	......	......	......
Department of the Navy	−531	......	−531	−43	......	−43	−55	......	−55
Department of the Air Force	−30	......	−30	2	......	2	−2	......	−2
Defense agencies	−60	......	−60	−117	......	−117	−111	......	−111
Offsetting governmental receipts:									
Department of the Army	......	(* *)	(* *)	......	5	−5	......	6	−6
Total—Department of Defense—Military	**24,228**	**1,276**	**22,951**	**262,403**	**1,024**	**261,379**	**258,523**	**2,399**	**256,124**
Department of Education:									
Office of Elementary and Secondary Education:									
Education reform	95	......	95	887	......	887	746	......	746
Education for the disadvantaged	463	......	463	7,554	......	7,554	7,818	......	7,818
Impact aid	23	......	23	1,081	......	1,081	735	......	735
School improvement programs	168	......	168	1,326	......	1,326	1,366	......	1,366
Other	4	......	4	59	......	59	55	......	55
Total—Office of Elementary and Secondary Education	752	......	752	10,907	......	10,907	10,720	......	10,720
Office of Bilingual Education and Minority Languages Affairs	21	......	21	311	......	311	207	......	207
Office of Special Education and Rehabilitative Services:									
Special education	341	......	341	4,444	......	4,444	3,658	......	3,658
Rehabilitation services and disability research	207	......	207	2,713	......	2,713	2,482	......	2,482
Special institutions for persons with disabilities	9	......	9	135	......	135	133	......	133
Office of Vocational and Adult Education	129	......	129	1,364	......	1,364	1,451	......	1,451
Office of Postsecondary Education:									
College housing and academic facilities loans	−1	......	−1	3	45	−42	−2	96	−98
Student financial assistance	1,142	......	1,142	9,125	......	9,125	7,934	......	7,934
Higher education	96	......	96	855	......	855	785	......	785
Howard University	15	......	15	220	......	220	206	......	206
Federal direct student loan program	−619	......	−619	−93	......	−93	876	......	876
Federal family education loans	1,241	......	1,241	2,729	......	2,729	2,225	......	2,225
Total—Office of Postsecondary Education	1,873	......	1,873	12,838	45	12,794	12,025	96	11,928
Office of Educational Research and Improvement	55	......	55	479	......	479	514	......	514
Departmental Management	108	......	108	440	......	440	404	......	404
Proprietary receipts from the public	......	4	−4	......	66	−66	......	......	......
Total—Department of Education	**3,497**	**4**	**3,492**	**33,631**	**110**	**33,521**	**31,594**	**96**	**31,498**
Department of Energy:									
Atomic Energy Defense Activities:									
Weapons activities	493	......	493	4,604	......	4,604	3,953	......	3,953
Defense environmental restoration and waste management	307	......	307	4,341	......	4,341	4,444	......	4,444
Defense facilities closure projects	65	......	65	1,014	......	1,014	863	......	863
Other defense activities	189	......	189	2,037	......	2,037	1,691	......	1,691
Other	3	......	3	192	......	192	230	......	230
Energy Programs:									
Science	214	......	214	2,449	......	2,449	2,239	......	2,239
Energy supply	69	......	69	939	......	939	1,241	......	1,241
Energy conservation	73	......	73	586	......	586	621	......	621
Other	5	1	4	1,650	30	1,620	1,750	11	1,739
Total—Energy Programs	360	1	359	5,624	30	5,594	5,851	11	5,840
Power Marketing Administration	452	197	256	2,101	2,077	24	1,982	1,910	72
Departmental Administration	−53	......	−53	138	......	138	141	......	141
Proprietary receipts from the public	......	1	−1	......	1,296	−1,296	......	1,590	−1,590
Intrabudgetary transactions	−43	......	−43	−543	......	−543	−1,190	......	−1,190
Offsetting governmental receipts	......	25	−25	......	25	−25	......	10	−10
Total—Department of Energy	**1,774**	**224**	**1,551**	**19,507**	**3,428**	**16,079**	**17,965**	**3,521**	**14,444**

Table 5. Outlays of the U.S. Government, September 1999 and Other Periods—Continued

[$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Department of Health and Human Services:									
Public Health Service:									
Food and Drug Administration	86	(* *)	86	955	4	951	842	4	838
Health Resources and Services Administration	376	1	375	3,885	26	3,860	3,492	19	3,473
Indian Health Services	120	......	120	2,198	......	2,198	2,146	......	2,146
Centers for Disease Control and Prevention	191	......	191	2,430	......	2,430	2,410	......	2,410
National Institutes of Health	1,253	......	1,253	13,815	......	13,815	12,501	......	12,501
Substance Abuse and Mental Health Services Administration	195	......	195	2,214	......	2,214	2,236	......	2,236
Agency for Health Care Policy and Research	−1	......	−1	79	......	79	77	......	77
Total—Public Health Service	2,220	2	2,219	25,577	30	25,547	23,703	23	23,680
Health Care Financing Administration:									
Grants to States for Medicaid	10,099	......	10,099	108,043	......	108,043	101,234	......	101,234
Payments to health care trust funds	6,356	......	6,356	69,589	......	69,589	65,184	......	65,184
State children's health insurance fund	55	......	55	565	......	565	5	......	5
Federal hospital insurance trust fund:									
Benefit payments	10,874	......	10,874	129,463	......	129,463	135,487	......	135,487
Administrative expenses	136	......	136	1,297	......	1,297	1,203	......	1,203
Total—FHI trust fund	11,010	......	11,010	130,759	......	130,759	136,690	......	136,690
Health care fraud and abuse control	69	......	69	742	......	742	608	......	608
Federal supplementary medical insurance trust fund:									
Benefit payments	6,685	......	6,685	79,008	......	79,008	74,837	......	74,837
Administrative expenses	158	......	158	1,510	......	1,510	1,435	......	1,435
Total—FSMI trust fund	6,843	......	6,843	80,518	......	80,518	76,272	......	76,272
Other	−32	......	−32	−34	......	−34	−42	......	−42
Total—Health Care Financing Administration	34,401	......	34,401	390,181	......	390,181	379,950	......	379,950
Administration for Children and Families:									
Temporary assistance for needy families	1,183	......	1,183	14,161	......	14,161	13,284	......	13,284
Payments to States for child support enforcement and family support programs	580	......	580	2,756	......	2,756	2,171	......	2,171
Low income home energy assistance	76	......	76	1,176	......	1,176	1,132	......	1,132
Refugee and entrant assistance	45	......	45	332	......	332	326	......	326
Child care entitlement to States	194	......	194	2,254	......	2,254	2,028	......	2,028
Payments to States for the child care and development block grant	96	......	96	1,032	......	1,032	1,095	......	1,095
Social services block grant	119	......	119	1,993	......	1,993	[1]2,437	......	2,437
Children and families services programs	475	......	475	5,703	......	5,703	[1]5,331	......	5,331
Payments to States for foster care and adoption assistance	301	......	301	4,707	......	4,707	4,451	......	4,451
Other	47	......	47	378	......	378	334	......	334
Total—Administration for Children and Families	3,114	......	828,587 3,114	34,491	......	34,491	32,590	......	32,590
Administration on Aging	69	......	69	879	......	879	[1]829	......	829
Other	34	......	34	682	......	682	[1]505	......	505
Proprietary receipts from the public	......	2,293	−2,293	......	22,483	−22,483	......	21,799	−21,799
Intrabudgetary transactions:									
Payments for health insurance for the aged:									
Federal supplementary medical insurance trust fund	−5,074	......	−5,074	−62,185	......	−62,185	−59,919	......	−59,919
Payments for tax and other credits:									
Federal hospital insurance trust fund	−1,283	......	−1,283	−7,413	......	−7,413	−5,264	......	−5,264
Total—Department of Health and Human Services	**33,482**	**2,295**	**31,187**	**382,213**	**22,513**	**359,700**	**372,393**	**21,822**	**350,571**

Table 5. Outlays of the U.S. Government, September 1999 and Other Periods—Continued

[$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Department of Housing and Urban Development:									
Housing Programs:									
Public enterprise funds	35	44	−9	53	82	−30	98	123	−25
Credit accounts:									
Federal housing administration fund	14,031	7,464	6,567	35,169	29,528	5,641	17,122	16,432	690
Housing for the elderly or handicapped fund	(* *)	75	−75	492	881	−389	364	726	−362
Other	......	......	......	(* *)	......	(* *)	(* *)	......	(* *)
Rent supplement payments	4	......	4	56	......	56	54	......	54
Homeownership assistance	11	......	11	45	......	45	74	......	74
Rental housing assistance	41	......	41	609	......	609	618	......	618
Low-rent public housing	20	......	20	606	......	606	617	......	617
Public housing grants	1	......	1	8	......	8	−39	......	−39
College housing grants	1	......	1	15	......	15	17	......	17
Lower income housing assistance	258	......	258	6,637	......	6,637	9,140	......	9,140
Section 8 contract renewals	......	......	......	(* *)	......	(* *)	2	......	2
Other	235	......	235	2,398	......	2,398	1,736	......	1,736
Total—Housing Programs	14,636	7,583	7,053	46,088	30,492	15,597	29,802	17,280	12,522
Public and Indian Housing Programs:									
Low-rent public housing—loans and other expenses	3	(* *)	2	215	182	32	230	188	42
Payments for operation of low-income housing projects	242	......	242	2,876	......	2,876	3,116	......	3,116
Community Partnerships Against Crime	38	......	38	283	......	283	281	......	281
Other	511	......	511	11,692	......	11,692	10,815	......	10,815
Total—Public and Indian Housing Programs	794	(* *)	793	15,065	182	14,883	14,443	188	14,255
Government National Mortgage Association:									
Management and liquidating functions fund	......	......	......	......	......	......	(* *)	......	(* *)
Guarantees of mortgage-backed securities	3	17	−14	167	494	−326	788	845	−57
Total—Government National Mortgage Association	3	17	−14	167	494	−326	788	845	−57
Community Planning and Development:									
Community development grants	387	......	387	4,804	......	4,804	4,621	......	4,621
Home investment partnerships program	104	......	104	1,347	......	1,347	1,286	......	1,286
Other	14	6	8	196	91	105	265	90	176
Total—Community Planning and Development	505	6	499	6,347	91	6,256	6,172	90	6,082
Management and Administration	54	......	54	510	......	510	414	......	414
Other	8	......	8	60	......	60	55	......	55
Proprietary receipts from the public	......	3,618	−3,618	......	4,228	−4,228	......	3,030	−3,030
Offsetting governmental receipts	......	......	......	......	16	−16	......	16	−16
Total—Department of Housing and Urban Development	**16,000**	**11,224**	**4,776**	**68,238**	**35,502**	**32,736**	**51,673**	**21,449**	**30,224**
Department of the Interior:									
Land and Minerals Management:									
Bureau of Land Management:									
Management of lands and resources	34	......	34	602	......	602	592	......	592
Other	256	1	255	712	16	696	663	15	648
Minerals Management Service	57	......	57	602	......	602	688	......	688
Office of Surface Mining Reclamation and Enforcement	29	......	29	356	......	356	329	......	329
Total—Land and Minerals Management	376	1	375	2,272	16	2,256	2,272	15	2,257
Water and Science:									
Bureau of Reclamation:									
Water and related resources	59	......	59	601	......	601	586	......	586
Other	105	48	56	423	295	128	390	179	211
United States Geological Survey	69	......	69	801	......	801	736	......	736
Other	6	......	6	37	......	37	42	......	42
Total—Water and Science	238	48	190	1,861	295	1,566	1,755	179	1,576
Fish and Wildlife and Parks:									
United States Fish and Wildlife Service	115	......	115	1,308	......	1,308	1,302	......	1,302
National Park Service	135	......	135	1,620	......	1,620	1,726	......	1,726
Total—Fish and Wildlife and Parks	250	......	250	2,928	......	2,928	3,028	......	3,028

Table 5. Outlays of the U.S. Government, September 1999 and Other Periods—Continued

[$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Department of the Interior:—Continued									
Bureau of Indian Affairs	127	(* *)	127	1,857	7	1,850	1,793	12	1,781
Departmental Offices:									
Insular affairs	98	......	98	331	......	331	308	......	308
Office of Special Trustee for American Indians	62	......	62	408	......	408	476	......	476
Other	25	10	15	906	51	855	185	20	165
Proprietary receipts from the public	......	255	−255	......	2,160	−2,160	......	2,105	−2,105
Intrabudgetary transactions	−56	......	−56	−262	......	−262	−254	......	−254
Total—Department of the Interior	**1,120**	**314**	**805**	**10,302**	**2,529**	**7,773**	**9,563**	**2,331**	**7,232**
Department of Justice:									
General Administration	−22	......	−22	595	......	595	288	......	288
Legal Activities and United States Marshals:									
United States Attorneys	62	......	62	1,069	......	1,069	1,021	......	1,021
Other	147	......	147	2,177	......	2,177	1,923	......	1,923
Federal Bureau of Investigation	246	......	246	3,040	......	3,040	2,949	......	2,949
Drug Enforcement Administration	171	......	171	1,203	......	1,203	1,099	......	1,099
Immigration and Naturalization Service	390	......	390	3,775	......	3,775	3,593	......	3,593
Federal Prison System	302	16	286	3,404	201	3,204	2,858	176	2,682
Office of Justice Programs:									
Violent crime reduction programs	260	......	260	2,266	......	2,266	1,477	......	1,477
Community oriented policing services	82	......	82	1,161	......	1,161	968	......	968
Other	103	......	103	819	......	819	978	......	978
Other	90	......	90	338	......	338	318	......	318
Intrabudgetary transactions	−7	......	−7	−59	......	−59	−51	......	−51
Offsetting governmental receipts	......	147	−147	......	1,270	−1,270	......	1,075	−1,075
Total—Department of Justice	**1,824**	**163**	**1,661**	**19,788**	**1,470**	**18,318**	**17,420**	**1,251**	**16,169**
Department of Labor:									
Employment and Training Administration:									
Training and employment services	447	......	447	4,675	......	4,675	4,644	......	4,644
Welfare to work jobs	39	......	39	267	......	267	16	......	16
Community service employment for older Americans	40	......	40	441	......	441	448	......	448
Federal unemployment benefits and allowances	27	......	27	326	......	326	283	......	283
State unemployment insurance and employment service operations	7	......	7	45	......	45	219	......	219
Advances to the unemployment trust fund and other funds	......	......	......	23	......	23	......	......	......
Unemployment trust fund:									
Federal-State unemployment insurance:									
State unemployment benefits	1,509	......	1,509	21,180	......	21,180	19,933	......	19,933
State administrative expenses	298	......	298	3,361	......	3,361	3,085	......	3,085
Federal administrative expenses	11	......	11	140	......	140	204	......	204
Veterans employment and training	16	......	16	186	......	186	183	......	183
Other	(* *)	......	(* *)	4	......	4	3	......	3
Total—Unemployment trust fund	1,834	......	1,834	24,870	......	24,870	23,408	......	23,408
Other	7	......	7	91	......	91	89	......	89
Total—Employment and Training Administration	2,402	......	2,402	30,738	......	30,738	29,106	......	29,106
Pension Benefit Guaranty Corporation	100	123	−23	1,231	1,897	−665	1,064	2,281	−1,218
Employment Standards Administration:									
Salaries and expenses	33	......	33	307	......	307	307	......	307
Special benefits	−420	......	−420	150	......	150	56	......	56
Black lung disability trust fund	554	......	554	1,000	......	1,000	993	......	993
Other	17	......	17	149	......	149	148	......	148
Occupational Safety and Health Administration	30	......	30	349	......	349	339	......	339
Bureau of Labor Statistics	29	......	29	326	......	326	320	......	320
Other	56	......	56	523	......	523	472	......	472
Proprietary receipts from the public	......	−1	1	......	6	−6	......	3	−3
Intrabudgetary transactions	−23	......	−23	−410	......	−410	−517	......	−517
Total—Department of Labor	**2,778**	**122**	**2,656**	**34,362**	**1,903**	**32,459**	**32,287**	**2,285**	**30,002**

Table 5. Outlays of the U.S. Government, September 1999 and Other Periods—Continued

[$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Department of State:									
Administration of Foreign Affairs:									
Diplomatic and consular programs	267	......	267	2,137	......	2,137	1,768	......	1,768
International Information Programs	55	......	55	469	......	469	443	......	443
Security and maintenance of United States missions	76	......	76	615	......	615	235	......	235
Payment to Foreign Service retirement and disability fund	39	......	39	216	......	216	214	......	214
Foreign Service retirement and disability fund	45	......	45	538	......	538	517	......	517
Other	−166	......	−166	188	......	188	225	......	225
Total—Administration of Foreign Affairs	315	......	315	4,163	......	4,163	3,403	......	3,403
International Organizations and Conferences	127	......	127	1,183	......	1,183	997	......	997
Migration and refugee assistance	47	......	47	732	......	732	722	......	722
Other	55	......	55	657	......	657	521	......	521
Proprietary receipts from the public	......	(* *)	(* *)	......	2	−2	......	2	−2
Intrabudgetary transactions	−47	......	−47	−269	......	−269	−268	......	−268
Total—Department of State	**497**	**(* *)**	**497**	**6,466**	**2**	**6,464**	**5,374**	**2**	**5,373**
Department of Transportation:									
Coast Guard:									
Operating expenses	265	......	265	2,812	......	2,812	2,657	......	2,657
Acquisition, construction, and improvements	36	......	36	392	......	392	353	......	353
Retired pay	59	......	59	669	......	669	647	......	647
Other	39	2	38	296	7	289	269	6	263
Total—Coast Guard	400	2	398	4,170	7	4,163	3,925	6	3,919
Federal Aviation Administration:									
Operations	128	......	128	1,455	......	1,455	3,352	......	3,352
Airport and airway trust fund:									
Grants-in-aid for airports	187	......	187	1,565	......	1,565	1,511	......	1,511
Facilities and equipment	274	......	274	2,195	......	2,195	2,226	......	2,226
Research, engineering, and development	16	......	16	174	......	174	203	......	203
Trust fund share of FAA operations	343	......	343	4,122	......	4,122	1,929	......	1,929
Total—Airport and airway trust fund	819	......	819	8,056	......	8,056	5,868	......	5,868
Other	(* *)	2	−2	−1	4	−4	25	4	21
Total—Federal Aviation Administration	947	2	945	9,510	4	9,507	9,245	4	9,242
Federal Highway Administration:									
Highway trust fund:									
Federal-aid highways	2,687	......	2,687	22,742	......	22,742	19,967	......	19,967
Other	41	25	16	152	40	112	129	9	120
Other programs	24	......	24	194	......	194	263	......	263
Total—Federal Highway Administration	2,752	25	2,727	23,088	40	23,047	20,359	9	20,350
National Highway Traffic Safety Administration	39	......	39	331	......	331	304	......	304
Federal Railroad Administration:									
Capital Grants to the National Railroad Passenger Corporation	(* *)	......	(* *)	244	......	244	479	......	479
Other	37	(* *)	37	195	7	189	613	7	606
Total—Federal Railroad Administration	37	(* *)	37	439	7	432	1,092	7	1,086
Federal Transit Administration:									
Formula grants	293	......	293	−106	......	−106	−181	......	−181
Discretionary grants	115	......	115	1,524	......	1,524	1,873	......	1,873
Trust fund share of expenses	......	......	......	4,252	......	4,252	2,260	......	2,260
Other	52	......	52	−1,411	......	−1,411	345	......	345
Total—Federal Transit Administration	460	......	460	4,259	......	4,259	4,297	......	4,297
Maritime Administration	43	2	42	448	325	123	597	398	199
Other	−28	1	−30	229	13	216	255	13	242
Proprietary receipts from the public	......	86	−86	......	120	−120	......	23	−23
Intrabudgetary transactions	−6	......	−6	−24	......	−24	−36	......	−36
Offsetting governmental receipts	......	7	−7	......	116	−116	......	112	−112
Total—Department of Transportation	**4,643**	**125**	**4,519**	**42,452**	**633**	**41,819**	**40,039**	**572**	**39,467**

Table 5. Outlays of the U.S. Government, September 1999 and Other Periods—Continued

[$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Department of the Treasury:									
Departmental Offices:									
Exchange stabilization fund	139	67	72	−581	804	−1,385	−371	864	−1,236
Other	82	......	82	743	......	743	538	......	538
Financial Management Service:									
Salaries and expenses	9	......	9	207	......	207	192	......	192
Payment to the Resolution Funding Corporation	......	......	......	2,328	......	2,328	2,328	......	2,328
Net interest paid to loan guarantee financing accounts	3,270	......	3,270	3,617	......	3,617	3,435	......	3,435
Claims, judgements, and relief acts	122	......	122	1,827	......	1,827	678	......	678
Other	40	......	40	182	......	182	71	......	71
Total—Financial Management Service	3,441	......	3,441	8,162	......	8,162	6,705	......	6,705
Federal Financing Bank	−109	......	−109	1,130	......	1,130	3,071	......	3,071
Bureau of Alcohol, Tobacco, and Firearms:									
Salaries and expenses	52	......	52	553	......	553	467	......	467
Internal revenue collections for Puerto Rico	19	......	19	235	......	235	230	......	230
United States Customs Service	167	......	167	2,230	......	2,230	2,028	......	2,028
Bureau of Engraving and Printing	−18	......	−18	−40	......	−40	45	......	45
United States Mint	616	263	352	1,923	1,903	20	941	1,037	−96
Bureau of the Public Debt	13	......	13	305	......	305	270	......	270
Internal Revenue Service:									
Processing, assistance, and management	519	......	519	3,203	......	3,203	2,690	......	2,690
Tax law enforcement	256	......	256	3,115	......	3,115	3,146	......	3,146
Information systems	311	......	311	1,816	......	1,816	1,363	......	1,363
Payment where earned income credit exceeds liability for tax	123	......	123	25,632	......	25,632	23,239	......	23,239
Payment where child credit exceeds liability for tax	11	......	11	[2]446	......	446	......	......	......
Refunding internal revenue collections, interest	97	......	97	2,724	......	2,724	2,599	......	2,599
Other	21	(* *)	21	144	6	139	126	10	116
Total—Internal Revenue Service	1,338	(* *)	1,337	37,080	6	37,074	33,163	10	33,153
United States Secret Service	60	......	60	732	......	732	639	......	639
Comptroller of the Currency	31	1	30	405	401	4	357	389	−32
Office of Thrift Supervison	12	1	11	149	141	8	139	143	−3
Interest on the public debt:									
Public issues (accrual basis)	18,286	......	18,286	228,382	......	228,382	241,567	......	241,567
Special issues (cash basis)	1,499	......	1,499	125,129	......	125,129	122,256	......	122,256
Total—Interest on the public debt	19,785	......	19,785	353,511	......	353,511	363,824	......	363,824
Other	12	......	12	184	......	184	124	......	124
Proprietary receipts from the public	......	5,989	−5,989	......	9,864	−9,864	......	[1]8,895	−8,895
Intrabudgetary transactions	−1,559	......	−1,559	−5,114	......	−5,114	−9,498	......	−9,498
Offsetting governmental receipts	......	82	−82	......	1,208	−1,208	......	1,240	−1,240
Total—Department of the Treasury	**24,081**	**6,403**	**17,678**	**401,607**	**14,327**	**387,280**	**402,673**	**12,579**	**390,094**
Department of Veterans Affairs:									
Veterans Health Administration:									
Medical care	1,387	......	1,387	17,846	......	17,846	17,271	......	17,271
Other	48	23	26	666	262	404	572	227	344
Veterans Benefits Administration:									
Public enterprise funds:									
Guaranty and indemnity fund	680	......	680	1,549	......	1,549	1,150	71	1,079
Loan guaranty revolving fund	−71	104	−175	1,072	1,443	−371	1,609	1,648	−39
Other	44	57	−13	523	527	−4	556	570	−13
Compensation, pensions, and burial benefits	1,777	......	1,777	21,148	......	21,148	20,289	......	20,289
Readjustment benefits	80	......	80	1,445	......	1,445	1,310	......	1,310
Insurance funds:									
National service life	117	......	117	1,201	......	1,201	1,210	......	1,210
United States Government Life	1	......	1	12	......	12	12	......	12
Veterans special life	14	3	11	138	176	−37	161	179	−18
Other	23	......	23	69	......	69	100	......	100
Total—Veterans Benefits Administration	2,664	164	2,500	27,157	2,145	25,012	26,399	2,467	23,932
Construction	39	(* *)	39	522	(* *)	521	523	(* *)	523
Departmental Administration	1	......	1	961	......	961	893	......	893
Proprietary receipts from the public:									
National service life	......	15	−15	......	204	−204	......	217	−217
Other	......	303	−303	......	1,363	−1,363	......	933	−933
Intrabudgetary transactions	(* *)	......	(* *)	−9	......	−9	−37	......	−37
Total—Department of Veterans Affairs	**4,138**	**505**	**3,633**	**47,144**	**3,975**	**43,169**	**45,620**	**3,845**	**41,776**

Table 5. Outlays of the U.S. Government, September 1999 and Other Periods—Continued

[$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Corps of Engineers:									
Construction, general	218	......	218	1,233	......	1,233	1,177	......	1,177
Operation and maintenance, general	191	......	191	1,661	......	1,661	1,328	......	1,328
Flood control	55	......	55	495	......	495	433	......	433
Harbor maintenance trust fund	49	......	49	281	......	281	497	......	497
Other	24	......	24	905	......	905	705	......	705
Proprietary receipts from the public	......	45	−45	......	390	−390	......	307	−307
Total—Corps of Engineers	**535**	**45**	**490**	**4,576**	**390**	**4,186**	**4,140**	**307**	**3,833**
Other Defense Civil Programs:									
Military Retirement:									
Payment to military retirement fund	......	......	......	15,250	......	15,250	15,119	......	15,119
Military retirement fund	2,675	......	2,675	31,889	......	31,889	31,142	......	31,142
Educational Benefits	8	......	8	178	......	178	152	......	152
Other	14	......	14	150	......	150	132	......	132
Proprietary receipts from the public	......	1	−1	......	11	−11	......	12	−12
Intrabudgetary transactions	−33	......	−33	−15,447	......	−15,447	−15,316	......	−15,316
Total—Other Defense Civil Programs	**2,664**	**1**	**2,662**	**32,019**	**11**	**32,008**	**31,229**	**12**	**31,216**
Environmental Protection Agency:									
Science and technology	38	......	38	607	......	607	528	......	528
Environmental programs and management	162	......	162	1,873	......	1,873	1,857	......	1,857
State and tribal assistance grants	254	......	254	2,745	......	2,745	2,597	......	2,597
Hazardous substance superfund	168	......	168	1,577	......	1,577	1,431	......	1,431
Other	37	(* *)	37	623	18	604	472	19	453
Proprietary receipts from the public	......	48	−48	......	320	−320	......	320	−320
Intrabudgetary transactions	......	......	......	−325	......	−325	−250	......	−250
Offsetting governmental receipts	......	1	−1	......	10	−10	......	9	−9
Total—Environmental Protection Agency	**658**	**49**	**609**	**7,100**	**348**	**6,752**	**6,636**	**348**	**6,288**
Executive Office of the President:									
Compensation of the President and the White House Office	5	......	5	51	......	51	46	......	46
Office of Management and Budget	5	......	5	59	......	59	56	......	56
Unanticipated needs	......	......	......	153	......	153	......	......	......
Other	11	(* *)	11	153	(* *)	153	134	(* *)	134
Total—Executive Office of the President	**21**	**(* *)**	**21**	**416**	**(* *)**	**416**	**236**	**(* *)**	**236**
Federal Emergency Management Agency:									
Public enterprise funds	25	82	−57	609	687	−77	359	775	−416
Disaster relief	253	......	253	3,746	......	3,746	1,998	......	1,998
Emergency management planning and assistance	−72	......	−72	104	......	104	253	......	253
Other	26	......	26	277	......	277	273	......	273
Proprietary receipts from the public	......	......	......	......	......	......	......	(* *)	(* *)
Offsetting governmental receipts	......	−1	1	......	9	−9	......	8	−8
Total—Federal Emergency Management Agency	**232**	**81**	**151**	**4,736**	**696**	**4,040**	**2,884**	**783**	**2,101**
General Services Administration:									
Real Property Activities	33	......	33	−216	......	−216	1,039	......	1,039
Supply and Technology Activities	−109	......	−109	13	......	13	−11	......	−11
General Activities	15	......	15	181	......	181	129	......	129
Proprietary receipts from the public	......	8	−8	......	24	−24	......	63	−63
Total—General Services Administration	**−61**	**8**	**−69**	**−22**	**24**	**−46**	**1,157**	**63**	**1,095**
International Assistance Program:									
International Security Assistance:									
Foreign military loan program	29	42	−13	308	470	−162	358	521	−163
Foreign military financing program	341	......	341	3,357	......	3,357	3,118	......	3,118
Economic support fund	239	......	239	2,349	......	2,349	2,461	......	2,461
Other	45	......	45	353	......	353	250	......	250
Proprietary receipts from the public	......	5	−5	......	502	−502	......	717	−717
Total—International Security Assistance	653	47	607	6,367	971	5,395	6,188	1,238	4,950
Multilateral Assistance:									
Contribution to the International Development Association	......	......	......	994	......	994	1,029	......	1,029
International organizations and programs	34	......	34	338	......	338	300	......	300
Other	81	......	81	524	......	524	535	14	522
Total—Multilateral Assistance	115	......	115	1,857	......	1,857	1,864	14	1,850

Table 5. Outlays of the U.S. Government, September 1999 and Other Periods—Continued

[$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
International Assistance Program:—Continued									
International Development Assistance:									
Agency for International Development:									
Economic assistance loans	−1	66	−67	(* *)	1,075	−1,075	(* *)	1,214	−1,215
Sustainable development assistance program	71	......	71	766	......	766	1,354	......	1,354
Assistance for the new independent States of the Former Soviet Union	44	......	44	652	......	652	626	......	626
Operating expenses	50	......	50	484	......	484	493	......	493
Payment to the Foreign Service retirement and disability fund	......	......	......	45	......	45	44	......	44
Other	205	19	185	1,584	108	1,476	1,230	94	1,136
Proprietary receipts from the public	......	−1	1	......	(* *)	(* *)	......	1	−1
Intrabudgetary transactions	(* *)	......	(* *)	−2	......	−2	−3	......	−3
Total—Agency for International Development	368	85	284	3,530	1,183	2,346	3,744	1,309	2,435
Overseas Private Investment Corporation	23	22	1	79	320	−241	106	330	−224
Peace Corps	22	......	22	239	(* *)	239	218	(* *)	218
Other	9	......	9	73	......	73	65	......	65
Total—International Development Assistance	423	106	316	3,921	1,504	2,418	4,133	1,639	2,494
International Monetary Programs	−256	......	−256	−146	......	−146	−151	......	−151
Military Sales Programs:									
Foreign military sales trust fund	1,154	......	1,154	12,159	......	12,159	14,010	......	14,010
Other	1	(* *)	(* *)	6	8	−2	14	53	−39
Proprietary receipts from the public	......	1,176	−1,176	......	11,624	−11,624	......	14,135	−14,135
Other	1	......	1	1	......	1	(* *)	......	(* *)
Total—International Assistance Program	**2,089**	**1,329**	**760**	**24,166**	**14,107**	**10,059**	**26,058**	**17,079**	**8,980**
National Aeronautics and Space Administration:									
Human space flight	529	......	529	5,417	......	5,417	5,551	......	5,551
Science, aeronautics, and technology	515	......	515	5,785	......	5,785	6,015	......	6,015
Mission support	203	......	203	2,395	......	2,395	2,483	......	2,483
Other	14	......	14	66	......	66	157	......	157
Total—National Aeronautics and Space Administration	**1,261**	**......**	**1,261**	**13,664**	**......**	**13,664**	**14,206**	**......**	**14,206**
National Science Foundation:									
Research and related activities	115	......	115	2,393	......	2,393	2,248	......	2,248
Education and human resources	144	......	144	571	......	571	576	......	576
Other	39	......	39	321	......	321	364	......	364
Total—National Science Foundation	**299**	**......**	**299**	**3,285**	**......**	**3,285**	**3,188**	**......**	**3,188**
Office of Personnel Management:									
Government payment for annuitants, employees health and life insurance benefits	397	......	397	4,479	......	4,479	4,099	......	4,099
Payment to civil service retirement and disability fund	21,401	......	21,401	21,401	......	21,401	21,357	......	21,357
Civil service retirement and disability fund	3,805	......	3,805	43,932	......	43,932	43,058	......	43,058
Employees life insurance fund	134	160	−26	1,613	2,998	−1,384	1,635	2,979	−1,344
Employees and retired employees health benefits fund	1,644	1,464	180	18,483	18,059	424	17,176	16,710	466
Other	9	......	9	91	......	91	55	......	55
Intrabudgetary transactions:									
Civil service retirement and disability fund:									
General fund contributions	−21,401	......	−21,401	−21,401	......	−21,401	−21,357	......	−21,357
Other	−2	......	−2	−26	......	−26	−28	......	−28
Total—Office of Personnel Management	**5,987**	**1,624**	**4,363**	**68,572**	**21,057**	**47,515**	**65,996**	**19,689**	**46,307**

Table 5. Outlays of the U.S. Government, September 1999 and Other Periods—Continued
[$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Small Business Administration:									
Public enterprise funds:									
Business loan fund	130	110	20	440	446	−5	781	412	369
Disaster loan fund	465	17	448	713	225	488	421	252	169
Other	1	1	(* *)	16	9	7	16	14	2
Other	−219	(* *)	−219	273	(* *)	273	225	(* *)	225
Proprietary receipts from the public	......	......	......	......	[3]705	−705	......	843	−843
Total—Small Business Administration	**376**	**128**	**249**	**1,442**	**1,384**	**58**	**1,443**	**1,521**	**−78**
Social Security Administration:									
Payments to social security trust funds	18	......	18	10,826	......	10,826	9,141	......	9,141
Special benefits for disabled coal miners	47	......	47	554	......	554	592	......	592
Supplemental security income program	2,761	......	2,761	30,673	......	30,673	29,747	......	29,747
Office of the Inspector General	2	......	2	4	......	4	17	......	17
Federal old-age and survivors insurance trust fund (off-budget):									
Benefit payments	27,907	......	27,907	332,383	......	332,383	324,274	......	324,274
Administrative expenses	202	......	202	1,851	......	1,851	1,832	......	1,832
Payment to railroad retirement account	......	......	......	3,681	......	3,681	3,662	......	3,662
Total—FOASI trust fund	28,109	......	28,109	337,916	......	337,916	329,769	......	329,769
Federal disability insurance trust fund (off-budget):									
Benefit payments	4,353	......	4,353	50,488	......	50,488	47,739	......	47,739
Administrative expenses	91	......	91	1,520	......	1,520	1,564	......	1,564
Payment to railroad retirement account	......	......	......	135	......	135	157	......	157
Other	......	......	......	(* *)	......	(* *)	(* *)	......	(* *)
Total—FDI trust fund	4,445	......	4,445	52,142	......	52,142	49,459	......	49,459
Proprietary receipts from the public:									
On-budget	......	369	−369	......	1,479	−1,479	......	1,362	−1,362
Off-budget	......	−26	26	......	21	−21	......	20	−20
Intrabudgetary transactions:									
Off-budget[4]	−18	......	−18	−10,824	......	−10,824	−9,140	......	−9,140
Total—Social Security Administration	**35,362**	**343**	**35,019**	**421,290**	**1,500**	**419,790**	**409,584**	**1,382**	**408,202**
Other independent agencies:									
Appalachian Regional Commission	14	(* *)	13	144	3	141	191	3	188
Broadcasting board of governors	26	......	26	406	......	406	403	......	403
Corporation for National and Community Service	41	......	41	609	......	609	591	......	591
Corporation for Public Broadcasting	31	......	31	281	......	281	250	......	250
District of Columbia:									
Courts	−5	......	−5	128	66	62	146	......	146
Corrections	15	......	15	152	......	152	471	......	471
General and special payments	48	7	41	452	3,357	−2,905	201	......	201
Financing	......	......	......	......	......	......	......	50	−50
Equal Employment Opportunity Commission	21	1	21	258	3	255	246	1	244
Export-Import Bank of the United States	83	69	14	885	1,053	−168	530	738	−208
Federal Communications Commission:									
Universal service fund	323	......	323	3,293	......	3,293	1,769	......	1,769
Spectrum auction subsidies	1,410	......	1,410	1,369	......	1,369	4,810	......	4,810
Other	−168	−10	−158	−5	26	−32	32	32	(* *)
Federal Deposit Insurance Corporation:									
Bank insurance fund	459	149	310	1,768	2,518	−751	1,243	2,462	−1,219
Savings association insurance fund	3	30	−28	155	552	−397	81	529	−448
FSLIC resolution fund:									
Resolution Trust Corporation closeout	17	426	−409	249	3,613	−3,364	358	2,527	−2,169
Other	2	78	−76	66	284	−218	141	456	−314
Office of Inspector General	8	......	8	28	......	28	29	......	29
Total—Federal Deposit Insurance Corporation	489	683	−195	2,266	6,968	−4,702	1,852	5,974	−4,122
Federal drug control programs	25	......	25	308	......	308	150	......	150
Legal Services Corporation	−6	......	−6	298	......	298	285	......	285
National Archives and Records Administration	18	(* *)	18	226	1	225	210	1	210
National Credit Union Administration	8	−60	68	230	491	−261	252	464	−212

Table 5. Outlays of the U.S. Government, September 1999 and Other Periods—Continued

[$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Other independent agencies:—Continued									
National Endowment for the Arts	9	......	9	104	......	104	97	......	97
National Endowment for the Humanities	9	......	9	113	......	113	110	......	110
Institute of Museum and Library Services	15	......	15	163	......	163	153	......	153
National Labor Relations Board	15	......	15	182	......	182	177	......	177
Nuclear Regulatory Commission	40	53	−13	479	442	37	492	455	38
Panama Canal Commission	62	55	8	684	758	−74	688	739	−50
Postal Service:									
Public enterprise funds (off-budget)	8,762	5,476	3,286	64,085	63,064	1,021	60,971	60,754	217
Payment to the Postal Service fund	......	......	......	29	......	29	86	......	86
Railroad Retirement Board:									
Federal windfall subsidy	16	......	16	188	......	188	201	......	201
Federal payments to the railroad retirement accounts	(* *)	......	(* *)	493	......	493	254	......	254
Railroad unemployment insurance trust fund:									
Benefit payments	6	......	6	68	......	68	59	......	59
Administrative expenses	......	......	......	(* *)	......	(* *)	(* *)	......	(* *)
Rail industry pension fund:									
Benefit payments	220	......	220	2,902	......	2,902	2,905	......	2,905
Advances from FOASDI fund	−93	......	−93	−1,118	......	−1,118	−1,124	......	−1,124
OASDI certifications	93	......	93	1,118	......	1,118	1,124	......	1,124
Administrative expenses	7	......	7	88	......	88	87	......	87
Interest on refunds of taxes	(* *)	......	(* *)	1	......	1	3	......	3
Other	1	......	1	5	......	5	5	......	5
Supplemental annuity pension fund:									
Benefit payments	6	......	6	75	......	75	79	......	79
Interest on refund of taxes	(* *)	......	(* *)	(* *)	......	(* *)	(* *)	......	(* *)
Railroad Social Security equivalent benefit account:									
Benefit payments	444	......	444	5,317	......	5,317	5,316	......	5,316
Interest on refund of taxes	(* *)	......	(* *)	1	......	1	2	......	2
Other	......	......	......	(* *)	......	(* *)	(* *)	......	(* *)
Intrabudgetary transactions:									
Payments from other funds to the railroad retirement trust funds	......	......	......	−3,816	......	−3,816	−3,819	......	−3,819
Other	......	......	......	−492	......	−492	−254	......	−254
Total—Railroad Retirement Board	700	......	700	4,830	......	4,830	4,837	......	4,837
Securities and Exchange Commission	−231	......	−231	−255	......	−255	−231	......	−231
Smithsonian Institution	46	......	46	486	......	486	488	......	488
Tennessee Valley Authority	780	787	−7	8,785	8,783	2	9,004	9,788	−784
United States Enrichment Corporation Fund	(* *)	−1	1	1	−4	5	1,108	1,154	−46
Other	96	35	60	1,222	332	890	999	563	436
Total—Other independent agencies	**12,677**	**7,095**	**5,582**	**92,207**	**85,343**	**6,865**	**91,369**	**80,716**	**10,653**
Undistributed offsetting receipts:									
Other interest	......	(* *)	(* *)	......	1	−1	......	3	−3
Employer share, employee retirement:									
Department of Health and Human Services:									
Federal hospital insurance trust fund:									
Federal employer contributions	−166	......	−166	−1,894	......	−1,894	−1,825	......	−1,825
Postal Service employer contributions	−51	......	−51	−611	......	−611	−607	......	−607
Payments for military service credits	......	......	......	−71	......	−71	−67	......	−67
Department of State:									
Foreign Service retirement and disability fund	−13	......	−13	−121	......	−121	−109	......	−109
Other Defense Civil Programs:									
Military retirement fund	−881	......	−881	−10,417	......	−10,417	−10,421	......	−10,421
Office of Personnel Management:									
Civil service retirement and disability fund	−4,328	......	−4,328	−15,095	......	−15,095	−14,791	......	−14,791
Social Security Administration (off-budget):									
Federal old-age and survivors insurance trust fund:									
Federal employer contributions	−549	......	−549	−6,146	......	−6,146	−5,843	......	−5,843
Payments for military service credits	......	......	......	−228	......	−228	−243	......	−243
Federal disability insurance trust fund:									
Federal employer contributions	−87	......	−87	−975	......	−975	−927	......	−927
Payments for military service credits	......	......	......	−36	......	−36	−39	......	−39
Other	(* *)	......	(* *)	−1	......	−1	−1	......	−1
Total—Employer share, employee retirement	−6,076	......	−6,076	−35,594	......	−35,594	−34,872	......	−34,872

Table 5. Outlays of the U.S. Government, September 1999 and Other Periods—Continued

[$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Undistributed offsetting receipts:—Continued									
Interest received by trust funds:									
Judicial Branch:									
Judicial survivors annuity fund	(* *)	......	(* *)	−25	......	−25	−11	......	−11
Department of Health and Human Services:									
Federal hospital insurance trust fund	−16	......	−16	−9,287	......	−9,287	−9,154	......	−9,154
Federal supplementary medical insurance trust fund	−109	......	−109	−2,925	......	−2,925	−2,606	......	−2,606
Department of Labor:									
Unemployment trust fund	−13	......	−13	−4,795	......	−4,795	−4,304	......	−4,304
Department of State:									
Foreign Service retirement and disability fund	(* *)	......	(* *)	−710	......	−710	−695	......	−695
United States Information Agency	(* *)	......	(* *)	−1	......	−1	−1	......	−1
Department of Transportation:									
Oil spill liability trust fund	−41	......	−41	−48	......	−48	−68	......	−68
Airport and airway trust fund	−16	......	−16	−698	......	−698	−543	......	−543
Highway trust fund	......	......	......	......	......	......	−2,004	......	−2,004
Department of Veterans Affairs:									
National service life insurance fund	−2	......	−2	−936	......	−936	−977	......	−977
United States government life insurance fund	(* *)	......	(* *)	−6	......	−6	−6	......	−6
Corps of Engineers	−24	......	−24	−68	......	−68	−44	......	−44
Other Defense Civil Programs:									
Military retirement fund	−385	......	−385	−12,560	......	−12,560	−12,358	......	−12,358
Educational benefits fund	−1	......	−1	−40	......	−40	−40	......	−40
Armed Forces Retirement Home	−1	......	−1	−6	......	−6	−8	......	−8
Environmental Protection Agency	−51	......	−51	−52	......	−52	−67	......	−67
National Aeronautics and Space Administration	3	......	3	2	......	2	−1	......	−1
Office of Personnel Management:									
Civil service retirement and disability fund	−28	......	−28	−33,579	......	−33,579	−31,766	......	−31,766
Social Security Administration (off-budget):									
Federal old-age and survivors insurance trust fund	−80	......	−80	−46,847	......	−46,847	−42,197	......	−42,197
Federal disability insurance trust fund	−12	......	−12	−5,223	......	−5,223	−4,432	......	−4,432
Independent agencies:									
Railroad Retirement Board	−35	......	−35	−313	......	−313	−2,017	......	−2,017
Other	−2	......	−2	−71	......	−71	−30	......	−30
Other	−238	......	−238	−444	......	−444	−508	......	−508
Total—Interest received by trust funds	−1,052	......	−1,052	−118,634	......	−118,634	−113,839	......	−113,839
Rents and royalties on the outer continental shelf lands	......	311	−311	......	3,098	−3,098	......	4,522	−4,522
Sale of major assets	......	......	......	......	......	......	......	5,158	−5,158
Spectrum auction proceeds	......	777	−777	......	1,753	−1,753	......	2,642	−2,642
Total—Undistributed offsetting receipts	**−7,127**	**1,088**	**−8,215**	**−154,228**	**4,852**	**−159,080**	**−148,711**	**12,326**	**−161,036**
Total outlays	**180,257**	**36,291**	**143,966**	**1,940,158**	**235,612**	**1,704,545**	**1,876,355**	**224,131**	**1,652,224**
Total on-budget	**139,687**	**30,841**	**108,846**	**1,556,295**	**172,527**	**1,383,767**	**1,498,978**	**163,356**	**1,335,622**
Total off-budget	**40,569**	**5,450**	**35,120**	**383,863**	**63,085**	**320,778**	**377,376**	**60,774**	**316,602**
Total surplus (+) or deficit			**+56,430**			**+122,740**			**+69,242**
Total on-budget			**+52,458**			**−951**			**−29,956**
Total off-budget			**+3,973**			**+123,691**			**+99,198**

MEMORANDUM

Receipts offset against outlays [$ millions]

	Current Fiscal Year to Date	Comparable Period Prior Fiscal Year
Proprietary receipts	65,397	69,605
Intrabudgetary transactions	283,371	276,479
Governmental receipts	4,853	5,574
Total receipts offset against outlays	353,621	351,657

[1]Outlays for "Social services block grant" have decreased by $4 million, outlays for "Children and families services programs" have increased by $2 million, outlays for Administration on Aging" have increased by $1 million, outlays for "Other" have increased by $1 million and "Proprietary receipts from the public" for the Department of the Treasury have increased by $2 million in September 1998 to reflect an adjustment by the Department of Health and Human Services.

[2]Outlays have been increased and refunds of taxes decreased by $435 million for January 1999 through August 1999 to reflect additional reporting for payments where child care credits exceed the liability for tax.

[3]Outlays have been increased by $289 million in August 1999 to reflect an adjustment by the Small Business Administration.

[4]Includes FICA and SECA tax credits, non-contributory military service credits, special benefits for the aged, and credit for unnegotiated OASI benefit checks.

... No Transactions.

(* *) Less than $500,000.

Note: Details may not add to totals due to rounding.

Table 6. Means of Financing the Deficit or Disposition of Surplus by the U.S. Government, September 1999 and Other Periods

[$ millions]

Assets and Liabilities Directly Related to Budget Off-budget Activity	Net Transactions (−) denotes net reduction of either liability or asset accounts: This Month	Fiscal Year to Date: This Year	Fiscal Year to Date: Prior Year	Account Balances Current Fiscal Year, Beginning of: This Year	Beginning of: This Month	Close of This month
Liability accounts:						
Borrowing from the public:						
Public debt securities, issued under general Financing authorities:						
Obligations of the United States, issued by:						
United States Treasury	−16,115	130,078	113,047	5,511,193	5,657,386	5,641,271
Federal Financing Bank	......	......	......	15,000	15,000	15,000
Total, public debt securities	−16,115	130,078	113,047	5,526,193	5,672,386	5,656,271
Plus premium on public debt securities	−16	−200	648	2,202	2,018	2,002
Less discount on public debt securities	534	1,648	864	79,051	80,165	80,698
Total public debt securities net of Premium and discount	−16,665	128,230	112,831	5,449,345	5,594,241	5,577,575
Agency securities, issued under special financing authorities (see Schedule B. for other Agency borrowing, see Schedule C)	283	−449	−3,814	[1]29,359	28,627	28,910
Total federal securities	−16,383	127,782	109,017	5,478,704	5,622,868	5,606,486
Deduct:						
Federal securities held as investments of government accounts (see Schedule D)	31,747	[2]221,927	163,915	[2]1,767,778	1,957,959	1,989,705
Less discount on federal securities held as investments of government accounts	411	5,822	3,687	10,687	16,098	16,510
Net federal securities held as investments of government accounts	31,335	216,105	160,228	1,757,090	1,941,860	1,973,196
Total borrowing from the public	−47,718	−88,323	−51,211	3,721,613	3,681,008	3,633,290
Accrued interest payable to the public	8,729	−2,845	−635	45,448	33,874	42,603
Allocations of special drawing rights	−346	80	30	6,719	7,145	6,799
Deposit funds	−719	188	−824	4,280	5,188	4,469
Miscellaneous liability accounts (includes checks outstanding etc.)	4,054	498	−15	3,923	366	4,420
Total liability accounts	**−36,000**	**−90,402**	**−52,655**	**3,781,983**	**3,727,582**	**3,691,581**
Asset accounts (deduct)						
Cash and monetary assets:						
U.S. Treasury operating cash:[3]						
Federal Reserve account	1,082	1,689	−2,740	4,952	5,559	6,641
Tax and loan note accounts	18,986	15,891	−2,003	33,926	30,831	49,817
Balance	20,069	17,580	−4,743	38,878	36,389	56,458
Special drawing rights:						
Total holdings	−512	178	108	10,106	10,796	10,284
SDR certificates issued to Federal Reserve Banks	1,000	2,000	......	−9,200	−8,200	−7,200
Balance	488	2,178	108	906	2,596	3,084
Reserve position on the U.S. quota in the IMF:						
U.S. subscription to International Monetary Fund:						
Direct quota payments	......	14,763	......	31,762	46,525	46,525
Maintenance of value adjustments	663	412	162	4,615	4,364	5,027
Letter of credit issued to IMF	−166	−15,750	7,204	−14,884	−30,467	−30,633
Dollar deposits with the IMF	4	−36	6	−85	−126	−121
Receivable/Payable (−) for interim maintenance of value adjustments	−406	−562	−262	−253	−409	−815
Balance	94	−1,173	7,110	21,155	19,887	19,982
Loans to International Monetary Fund	......	−495	495	495	......	......
Other cash and monetary assets	−1,513	887	3,375	26,153	28,552	27,040
Total cash and monetary assets	19,139	18,977	6,344	87,586	87,425	106,563
Net Activity, Guaranteed Loan Financing	−5,500	−5,240	−457	−14,362	−14,102	−19,603
Net Activity, Direct Loan Financing	5,280	[4]18,124	11,472	65,289	78,133	83,413
Miscellaneous asset accounts	2,012	1,486	−203	−83	−610	1,403
Total asset accounts	**20,930**	**33,347**	**17,157**	**138,430**	**150,846**	**171,776**
Excess of liabilities (+) or assets (−)	**−56,931**	**−123,749**	**−69,811**	**+3,643,554**	**+3,576,736**	**+3,519,805**
Transactions not applied to current year's surplus or deficit (see Schedule A for Details)	500	1,009	569	......	508	1,009
Total budget and off-budget federal entities (financing of deficit (+) or disposition of surplus (−))	−56,430	−122,740	−69,242	+3,643,554	+3,577,244	+3,520,813

[1]Includes a prior period adjustment to record securities previously redeemed.

[2]Includes an opening balance adjustment of −$1,763 million and an adjustment for year to date activity of $24 million to reflect the reclassification of securities held by government accounts to deposit funds.

[3]Major sources of information used to determine Treasury's operating cash income include Federal Reserve Banks, the Treasury Regional Finance Centers, the Internal Revenue Service Centers, the Bureau of the Public Debt and various electronic systems. Deposits are reflected as received and withdrawals are reflected as processed.

[4]Includes an adjustment for −$289 million in August 1999 for the Small Business Administration.

... No Transactions.

(*) Less than $500,000.

Note: Details may not add to totals due to rounding.

Table 6. Schedule A—Analysis of Change in Excess of Liabilities of the U.S. Government, September 1999 and Other Periods

[$ millions]

Classification	This Month	Fiscal Year to Date	
		This Year	Prior Year
Excess of liabilities beginning of period:			
Based on composition of unified budget in preceding period	3,576,460	3,642,770	3,713,893
Adjustments during current fiscal year for changes in composition of unified budget:			
Revisions by federal agencies to the prior budget results	276	783	−528
Excess of liabilities beginning of period (current basis)	3,576,736	3,643,554	3,713,365
Budget surplus (−) or deficit:			
Based on composition of unified budget in prior fiscal year	−56,430	−122,740	−69,242
Changes in composition of unified budget	......	......	......
Total surplus (−) or deficit (Table 2)	−56,430	−122,740	−69,242
Total-on-budget (Table 2)	−52,458	951	29,956
Total-off-budget (Table 2)	−3,973	−123,691	−99,198
Transactions not applied to current year's surplus or deficit:			
Seigniorage	−500	−1,018	−562
Profit on sale of gold	(* *)	−9	−7
Net gain (−)/Loss for International Monetary Fund Loan valuation adjustments	......	19	......
Total-transactions not applied to current year's surplus or deficit	−500	−1,009	−569
Excess of liabilities close of period	**3,519,805**	**3,519,805**	**3,643,554**

Table 6. Schedule B—Securities Issued by Federal Agencies Under Special Financing Authorities, September 1999 and Other Periods

[$ millions]

Classification	Net Transactions (−) denotes net reduction of liability accounts			Account Balances Current Fiscal Year		
	This Month	Fiscal Year to Date		Beginning of		Close of This month
		This Year	Prior Year	This Year	This Month	
Agency securities, issued under special financing authorities:						
Obligations of the United States, issued by:						
Export-Import Bank of the United States	......	......	......	(* *)	(* *)	(* *)
Federal Deposit Insurance Corporation:						
FSLIC resolution fund	......	......	−32	63	63	63
Obligations guaranteed by the United States, issued by:						
Department of Housing and Urban Development:						
Federal Housing Administration	5	−59	105	174	109	114
Department of the Interior:						
Bureau of Land Management	......	......	......	[1]......	......	......
Obligations not guaranteed by the United States, issued by:						
Legislative Branch:						
Architect of the Capitol	1	7	−2	177	183	184
Independent agencies:						
Farm Credit System Financial Assistance Corporation	......	......	......	1,261	1,261	1,261
National Archives and Records Administration	......	−5	−5	281	276	276
Postal Service	......	−83	−3,181	717	634	634
Tennessee Valley Authority	277	−308	−701	26,685	26,101	26,378
Total, agency securities	**283**	**−449**	**−3,814**	**29,359**	**28,627**	**28,910**

[1]Includes a prior period adjustment to record securities previously redeemded.
... No Transactions.

(* *) Less than $500,000.
Note: Details may not add to totals due to rounding.

Table 6. Schedule C (Memorandum)—Federal Agency Borrowing Financed Through the Issue of Public Debt Securities, September 1999 and Other Periods

[$ millions]

Classification	Transactions			Account Balances Current Fiscal Year		
	This Month	Fiscal Year to Date		Beginning of		Close of This month
		This Year	Prior Year	This Year	This Month	
Borrowing from the Treasury:						
Department of Agriculture:						
Farm Service Agency:						
Commodity Credit Corporation	825	12,020	9,794	17,543	28,738	29,563
Agricultural credit insurance fund	−723	668	324	2,390	3,781	3,058
Natural Resources Conservation Service	......	(* *)	......	4	4	4
Rural Housing Service:						
Rural community facility loans fund	−106	92	409	611	810	704
Rural housing insurance	−415	605	723	7,197	8,217	7,802
Self-help housing land development fund	......	......	(* *)	......	......	......
Rural Business – Cooperative Service:						
Rural business and industry loans	(* *)	22	17	26	48	48
Rural development loan fund	6	23	18	128	145	151
Rural economic development loan fund	(* *)	13	11	49	62	62
Rural Utilities Service:						
Rural water and waste disposal fund	−246	387	1,541	2,530	3,163	2,917
Rural communication development fund	......	......	......	25	25	25
Rural electrification and telecommunications fund	−376	353	250	9,232	9,962	9,585
Rural telephone bank	−2	−79	−45	432	355	353
Distance learning and telemedicine program	−1	1	......	......	2	1
Rural development insurance fund	......	−75	−1,375	1,076	1,001	1,001
Foreign Agricultural Service	−42	119	−28	642	803	761
Department of Commerce:						
National Oceanic and Atmospheric Administration:						
Fisheries finance	−1	87	30	55	143	142
Fishing vessel obligations	(* *)	(* *)	8	10	10	10
Department of Education:						
Federal direct student loan program	−4,509	16,972	12,384	35,097	56,579	52,070
Federal family education loan program	−117	−117	−237	117	117	......
College housing and academic facilities loans	−29	−27	−68	396	399	370
Department of Energy:						
Bonneville Power Administration fund	80	16	(* *)	2,499	2,435	2,515
Department of Housing and Urban Development:						
Housing Programs:						
Federal Housing Administration	1,417	1,417	2,941	6,579	6,579	7,996
Housing for the elderly and handicapped	......	−665	−881	5,293	4,628	4,628
Public and Indian housing:						
Low-rent public housing	−25	......	......	......	25	......
Department of Interior:						
Bureau of Reclamation loan fund	3	16	15	65	79	82
Helium fund	......	......	......	252	252	252
Bureau of Indian Affairs	−2	−2	−1	28	28	26
Department of Justice:						
Federal Prison Industries, Incorporated	......	......	......	20	20	20
Department of State:						
Repatriation loans	(* *)	(* *)	(* *)	(* *)	(* *)	(* *)
Department of Transportation:						
Minority business resource center fund	−9	4	−5	9	22	14
Federal Aviation Administration:						
Aircraft purchase loan guarantee program	......	......	(* *)	(* *)	(* *)	(* *)
Federal Railroad Administration:						
Alameda corridor project	119	119	128	248	248	366
Railroad rehabilitation and improvement loan fund	......	......	(* *)	......	......	......
Other	......	......	......	(* *)	(* *)	(* *)
Department of Treasury:						
Community development financial institutions fund	(* *)	4	1	5	9	9
Federal Financing Bank revolving fund	3,775	−5,921	−909	34,036	24,340	28,115
Department of Veterans Affairs:						
Veterans housing benefit program fund	−1,237	764	107	1,759	3,761	2,523
Loan guaranty revolving fund	......	......	−2,028	......	......	......
Direct loan revolving fund	......	......	(* *)	......	......	......
Native American veteran housing fund	−9	1	−8	15	25	16
Vocational rehabilitation loan fund	−2	(* *)	(* *)	1	3	1
Corps of Engineers:						
Washington aqueduct	1	10	13	13	22	23
Environmental Protection Agency:						
Abatement, control, and compliance loan program	......	......	......	38	38	38
Federal Emergency Management Agency:						
National insurance development fund	......	19	−395	525	544	544
Disaster assistance loan fund	−15	9	−13	50	73	59

Table 6. Schedule C (Memorandum)—Federal Agency Borrowing Financed Through the Issue of Public Debt Securities, September 1999 and Other Periods—Continued

[$ millions]

Classification	Transactions			Account Balances Current Fiscal Year		
	This Month	Fiscal Year to Date		Beginning of		Close of This month
		This Year	Prior Year	This Year	This Month	
Borrowing from the Treasury:—Continued						
General Services Administration:						
Land aquisition and development fund	......	......	−85	(* *)	(* *)	(* *)
International Assistance Program:						
International Security Assistance:						
Foreign military loan program	−274	−34	134	1,542	1,782	1,508
Military debt reduction	−1	(* *)	3	6	7	7
Agency for International Development:						
International debt reduction	−86	−86	......	234	234	148
Housing and other credit guaranty programs	−24	−24	−38	72	72	48
Microenterprise and small enterprise development	−1	(* *)	(* *)	2	3	2
Overseas Private Investment Corporation	−13	−6	−17	68	76	63
Small Business Administration:						
Business loan fund	6	22	8	399	416	421
Disaster loan fund	122	244	145	9,160	9,283	9,404
Independent agencies:						
District of Columbia	......	......	−223	......	......	......
Export-Import Bank of the United States	−195	2,647	815	3,956	6,798	6,603
Federal Communications Commission:						
Spectrum auction loan fund	−619	−619	−2,563	4,558	4,558	3,939
Presidio trust fund	......	20	......	......	20	20
Railroad Retirement Board:						
Rail industry pension fund	......	......	......	2,128	2,128	2,128
Social Security equivalent benefit account	252	−145	−45	2,865	2,468	2,720
Smithsonian Institution:						
John F. Kennedy Center parking facilities	......	......	......	20	20	20
Tennessee Valley Authority	......	......	......	150	150	150
Total agency borrowing from the Treasury financed through public debt securities issued	**−2,473**	**28,878**	**20,854**	**154,155**	**185,506**	**183,033**
Borrowing from the Federal Financing Bank:						
Department of Agriculture:						
Rural Housing Service:						
Rural housing insurance fund	−145	−2,375	−4,030	9,500	7,270	7,125
Rural Utilities Service:						
Rural electrification and telecommunications fund	−84	−282	−652	18,766	18,569	18,485
Rural development insurance fund	......	−265	......	3,675	3,410	3,410
Department of Defense:						
Department of Navy	......	......	......	1,624	1,624	1,624
Defense agencies	......	−86	−83	−399	−486	−486
Department of Education:						
Historically Black college and university capital financing fund	(* *)	6	4	5	11	11
Department of Health and Human Services:						
Medical facilities guarantee and loan fund	......	−4	−6	7	3	3
Health maintenance organization loan and loan guarantee fund	......	−1	−1	3	2	2
Department of Housing and Urban Development:						
Low rent housing – loans and other expenses	......	−72	−70	1,491	1,420	1,420
Community development grants	(* *)	−17	−6	30	14	13
Department of Interior:						
Assistance to territories	......	−1	−1	17	16	16
Department of Transportation:						
Railroad rehabilitation and improvement loan fund	(* *)	(* *)	(* *)	4	4	4
General Services Administration:						
Federal buildings fund	−3	−68	−33	1,760	1,696	1,692
Pennsylvania avenue activities	......	......	87	713	713	713
International Assistance Program:						
Foreign military financing program	−18	−218	−219	2,829	2,629	2,611
Small Business Administration:						
Business loan fund	−4	−40	−41	233	198	194
Independent agencies:						
Export-Import Bank of the United States	......	......	−1,295	......	......	......
FSLIC resolution fund:						
Resolution Trust Corporation closeout	......	......	−1,375	......	......	......
Postal Service	4,029	583	3,733	5,696	2,250	6,279
Total borrowing from the Federal Financing Bank	**3,775**	**−2,839**	**−3,990**	**45,955**	**39,341**	**43,116**

Note: This table includes lending by the Federal Financing Bank accomplished by the purchase of agency financial assets, by the acquisition of agency debt securities, and by direct loans on behalf of an agency. The Federal Financing Bank borrows from Treasury and issues its own securities and in turn may loan these funds to agencies in lieu of agencies borrowing directly through Treasury or issuing their own securities.

... No Transactions.
(* *) Less than $500,000.
Note: Details may not add to totals due to rounding.

Table 6. Schedule D—Investments of Federal Government Accounts in Federal Securities, September 1999 and Other Periods

[$ millions]

Classification	Net Purchases or Sales (−)			Securities Held as Investments Current Fiscal Year		
	This Month	Fiscal Year to Date		Beginning of		Close of This month
		This Year	Prior Year	This Year	This Month	
Federal funds:						
Department of Agriculture	4	4	5	14	14	18
Department of Commerce	3	−5	−7	16	8	11
Department of Defense—Military:						
Defense cooperation account	......	(* *)	(* *)	1	1	1
Department of Energy	140	4,399	5,320	12,449	16,708	16,848
Department of Housing and Urban Development:						
Housing Programs:						
Federal Housing Administration fund	−2,749	597	875	14,350	17,696	14,947
Government National Mortgage Association:						
Guarantees of mortgage-backed securities	14	332	68	5,449	5,767	5,781
Other	3	37	......	168	202	205
Department of the Interior	8	[1]151	115	[1]2,295	2,438	2,446
Department of Labor	26	600	940	[2]8,775	9,349	9,375
Department of Transportation	1	−40	−3	142	102	103
Department of the Treasury	−956	−713	514	16,389	16,632	15,676
Department of Veterans Affairs:						
Canteen service revolving fund	......	−1	......	38	37	37
Veterans reopened insurance fund	−4	−6	−5	516	513	509
Servicemen's group life insurance fund	......	(* *)	(* *)	4	5	5
Independent agencies:						
Export-Import Bank of the United States	−369	489	−426	528	1,386	1,017
Federal Deposit Insurance Corporation:						
Bank insurance fund	−291	914	1,116	27,445	28,650	28,359
Savings association insurance fund	53	542	337	9,602	10,091	10,144
FSLIC resolution fund	75	217	281	2,087	2,229	2,304
National Credit Union Administration	−68	253	211	3,906	4,227	4,159
Postal Service	642	−191	140	1,000	167	809
Other	274	421	621	2,713	2,861	3,135
Other	−1	[3]423	351	4,203	4,627	4,626
Total public debt securities	−3,197	8,425	10,453	112,090	123,712	120,515
Total Federal funds	**−3,197**	**8,425**	**10,453**	**112,090**	**123,712**	**120,515**
Trust funds:						
Legislative Branch:						
Library of Congress	(* *)	5	9	28	33	33
United States Tax Court	(* *)	(* *)	(* *)	6	6	7
Other	(* *)	1	1	36	37	37
Judicial Branch:						
Judicial retirement funds	−3	45	46	398	446	444
Department of Agriculture	−15	−6	−1	6	15	......
Department of Defense—Military:						
Voluntary separation incentive fund	−33	16	11	873	922	889
Other	1	−4	−2	64	59	60

Table 6. Schedule D—Investments of Federal Government Accounts in Federal Securities, September 1999 and Other Periods—Continued

[$ millions]

Classification	Net Purchases or Sales (−) This Month	Net Purchases or Sales (−) Fiscal Year to Date This Year	Net Purchases or Sales (−) Fiscal Year to Date Prior Year	Securities Held as Investments Current Fiscal Year Beginning of This Year	Securities Held as Investments Current Fiscal Year Beginning of This Month	Securities Held as Investments Current Fiscal Year Close of This month
Trust Funds—Continued						
Department of Health and Human Services:						
Federal hospital insurance trust fund	11,813	35,517	1,629	118,250	141,955	153,767
Federal supplementary medical insurance trust fund	−5,774	−12,973	5,037	39,502	32,303	26,528
Other	44	148	28	1,298	1,402	1,446
Department of the Interior	20	−10	−25	397	367	387
Department of Justice	−82	−72	94	94	104	22
Department of Labor:						
Unemployment trust fund	−1,425	6,716	8,718	70,641	78,782	77,358
Other	−9	2	−12	55	66	57
Department of State:						
Foreign Service retirement and disability fund	10	581	572	9,550	10,121	10,131
Other	−3	−3	−6	3	3	......
Department of Transportation:						
Airport and airway trust fund	102	3,864	2,189	8,550	12,312	12,414
Highway trust fund	1,750	10,157	−4,415	17,926	26,333	28,083
Other	62	74	28	2,138	2,151	2,212
Department of Treasury	−28	1	36	309	339	311
Department of Veterans Affairs:						
General post fund, national homes	5	6	8	45	46	51
National service life insurance	−101	−55	−14	12,008	12,055	11,954
United States government life insurance fund	−1	−6	−6	86	81	80
Veterans special life insurance fund	−12	37	18	1,628	1,677	1,666
Corps of Engineers	12	355	141	1,621	1,964	1,976
Other Defense Civil Programs:						
Military retirement fund	−1,311	7,431	7,821	133,843	142,585	141,274
Other	32	83	52	693	744	776
Environmental Protection Agency	121	−477	−448	6,529	5,931	6,052
Federal Emergency Management Agency	(* *)	2	−1	(* *)	2	2
National Aeronautics and Space Administration	−4	−3	1	17	17	13
Office of Personnel Management:						
Civil service retirement and disability fund:						
Public debt securities	22,358	33,883	32,353	446,757	458,282	480,640
Agency securities	......	−3,283	−3,181	3,917	634	634
Employees life insurance fund	26	1,379	1,338	19,377	20,729	20,755
Employees and retired employees health benefits fund	−178	−430	−522	6,265	6,013	5,835
Social Security Administration:						
Federal old-age and survivors insurance trust fund	6,369	108,944	85,837	653,282	755,857	762,226
Federal disability insurance trust fund	1,036	15,670	13,434	76,996	91,630	92,666
Independent agencies:						
Harry S. Truman Memorial Scholarship trust fund	−1	1	(* *)	55	58	57
Japan-United States Friendship Commission	(* *)	26	(* *)	16	42	42
Railroad Retirement Board	197	2,535	2,572	21,811	24,149	24,345
Other	−34	3,345	121	620	3,998	3,964
Total public debt securities	34,944	216,786	156,643	1,651,771	1,833,613	1,868,557
Total agency securities	......	−3,283	−3,181	3,917	634	634
Total trust funds	**34,944**	**213,503**	**153,462**	**1,655,688**	**1,834,247**	**1,869,191**
Grand total	**31,747**	**221,927**	**163,915**	**1,767,778**	**1,957,959**	**1,989,705**

[1] Includes an opening balance adjustment of −$1,755 million and an adjustment for year to date activity of $26 million to reflect the reclassification of securities held by government accounts to deposit funds.

[2] Includes an adjustment of −$7 million to reflect the reclassification of securities held by government accounts to deposit funds.

[3] Includes an adjustment of −$2 million to reflect the reclassification of securities held by goverment accounts to deposit funds.

... No Transactions.

(* *) Less than $500,000.

Note: Investments are in public debt securities unless otherwise noted.

Note: Details may not add to totals due to rounding.

Table 6. Schedule E—Net Activity, Guaranteed and Direct Loan Financing, September 1999 and Other Periods

[$ millions]

Classification	Net Transactions (–) denotes net reduction of asset accounts			Account Balances Current Fiscal Year		
	This Month	Fiscal Year to Date		Beginning of		Close of This month
		This Year	Prior Year	This Year	This Month	
Guaranteed Loan Financing Activity:						
Department of Agriculture:						
Farm Service Agency:						
Commodity Credit Corporation export fund	24	15	–339	–499	–508	–484
Agricultural credit insurance fund	–7	–19	–88	–256	–268	–275
Rural Housing Service:						
Rural community facility loans	(* *)	4	–1	–3	1	1
Rural housing insurance fund	–10	–130	–9	–80	–199	–210
Rural Business-Cooperative Service:						
Rural business and industry loans	–6	–57	–13	–30	–81	–87
Rural Utilities Service:						
Rural water and waste disposal fund	(* *)	(* *)	(* *)	–24	–24	–24
Department of Commerce:						
National Oceanic and Atmospheric Administration:						
Fishing vessel obligations	(* *)	–1	11	8	7	7
Department of Defense—Military	(* *)	–1	–3	–3	–4	–4
Department of Education:						
Office of Postsecondary Education:						
Federal family education loans	–1,605	–1,980	–26	–7,983	–8,358	–9,962
Department of Health and Human Services:						
Health Resources and Services Administration:						
Health center loans	(* *)	(* *)	–1	–1	–1	–1
Health education assistance loans	–24	–37	–11	–262	–275	–299
Department of Housing and Urban Development:						
Public and Indian Housing Programs:						
Indian housing loans	(* *)	–2	–3	–4	–6	–6
Community Planning and Development:						
Community development loans	–2	–9	–5	–7	–14	–16
Housing Programs:						
FHA-Mutual mortgage insurance loans	–2,457	–1,589	2,166	5,069	5,937	3,480
FHA-General and special risk fund	–645	–274	–231	–90	281	–364
Government National Mortgage Association:						
Guarantees of mortgaged-backed securities	276	–84	–269	–424	–784	–508
Department of the Interior:						
Bureau of Indian Affairs	–2	–10	–1	–19	–27	–29
Department of Transportation:						
Maritime Administration	73	56	–62	–246	–263	–190
Department of Veterans Affairs:						
Veterans Benefits Administration:						
Veterans housing benefit program fund	–653	–928	–467	–3,618	–3,893	–4,546
Loan guaranty revolving fund	......	......	......	–1	–1	–1
International Assistance Program:						
Agency for International Development:						
Ukraine export credit insurance fund	–2	–2	–2	–28	–28	–30
Loan guarantees to Israel	–35	–35	–118	–515	–515	–550
Urban and environmental credit guaranteed loans	–15	–18	–12	–49	–53	–68
Microenterprise and small enterprise development	(* *)	1	–1	–3	–2	–2
Overseas Private Investment Corporation	–13	–94	–93	–275	–357	–369
Small Business Administration:						
Business loan fund	–109	387	104	–1,209	–713	–822
Independent agencies:						
Export-Import Bank of the United States	–289	–436	–984	–3,810	–3,957	–4,245
Net Activity, Guaranteed Loan Financing	**–5,500**	**–5,240**	**–457**	**–14,362**	**–14,102**	**–19,603**
Direct Loan Financing Activity:						
Department of Agriculture:						
Farm Service Agency:						
Agricultural credit insurance fund	164	643	254	2,053	2,532	2,696
Natural Resources Conservation Service:						
Agricultural resource conservation demonstration program	(* *)	1	2	–4	–2	–2
Rural Housing Service:						
Rural community facility loans fund	45	143	101	316	414	459
Rural housing insurance fund	502	590	703	7,017	7,105	7,607
Self-help housing land development fund	......	(* *)	(* *)	(* *)	......	......
Rural Business-Cooperative Service:						
Rural business and industry loan fund	4	23	16	19	38	43
Rural development loan fund	8	28	20	103	123	131

Table 6. Schedule E—Net Activity, Guaranteed and Direct Loan Financing, September 1999 and Other Periods—Continued

[$ millions]

Classification	Net Transactions (−) denotes net reduction of asset accounts			Account Balances Current Fiscal Year		
	This Month	Fiscal Year to Date		Beginning of		Close of This month
		This Year	Prior Year	This Year	This Month	
Direct Loan Financing Activity:—Continued						
Department of Agriculture:—Continued						
Rural economic development loan fund	3	14	7	39	51	54
Rural Utilities Service:						
Rural water and waste disposal loans	191	461	473	1,479	1,748	1,940
Rural electrification and telecommunications fund	251	781	848	4,621	5,151	5,402
Rural telephone bank	13	39	24	167	192	205
Distance learning and telemedicine program	(* *)	1	......	......	(* *)	1
Rural development insurance fund	......	......	......	1,065	1,065	1,065
Foreign Agricultural Service:						
P.L. 480 direct loan fund	30	47	33	369	386	417
International debt reduction	−2	−9	2	43	37	34
P.L. 480, title 1, Food for progress credits	12	−3	−3	183	168	180
Department of Commerce:						
National Oceanic and Atmospheric Administration:						
Fisheries finance	7	98	26	26	117	124
Department of Education:						
Office of Postsecondary Education:						
Federal direct student loan program	4,450	14,056	10,894	32,796	42,402	46,852
College housing and academic facilities loans	(* *)	4	1	15	18	18
Historically Black college and university capital financing fund	(* *)	6	4	5	11	11
Department of Housing and Urban Development:						
Housing Programs:						
FHA-Mutual mortgage insurance loans	(* *)	−2	−1	(* *)	−1	−1
FHA-General and special risk fund	−4	−1	(* *)	(* *)	3	(* *)
Department of the Interior:						
Bureau of Reclamation	6	16	20	64	74	79
Bureau of Indian Affairs	1	(* *)	−2	24	23	24
Department of State:						
Administration of Foreign Affairs:						
Repatriation loans	(* *)	(* *)	(* *)	−2	−2	−2
Department of Transportation:						
Office of the Secretary:						
Minority business resource center	(* *)	2	(* *)	5	6	7
Federal Highway Administration:						
High priority corridors loan fund	......	......	3	......	......	......
Federal Railroad Administration:						
Alameda corridor project	119	119	128	248	248	366
Railroad rehabilitation and improvement loan fund	(* *)	(* *)	(* *)	2	2	2
Amtrak corridor improvement loans	......	......	(* *)	−1	−1	−1
Department of the Treasury:						
Departmental Offices:						
Community development financial institutions fund	1	3	1	4	6	7
Financial Management Service	......	......	......	(* *)	(* *)	(* *)
Department of Veterans Affairs:						
Veterans Benefits Administration:						
Veterans housing benefit program fund	353	678	−336	326	651	1,004
Loan guaranty fund	......	......	......	555	555	555
Direct loan fund	......	......	......	(* *)	(* *)	(* *)
Native American veteran housing fund	1	1	1	15	15	16
Vocational rehabilitation loan fund	(* *)	(* *)	(* *)	1	1	1
Environmental Protection Agency:						
Abatement, control, and compliance loan program	2	−2	−2	36	32	34
Federal Emergency Management Agency:						
Disaster assistance loan fund	3	18	−16	39	55	58
International Assistance Program:						
International Security Assistance:						
Foreign military loan program	210	56	95	1,373	1,219	1,429
Military debt reduction	2	(* *)	3	6	5	7
Agency for International Development:						
International debt reduction	−26	−34	−60	126	117	92
Microenterprise and small enterprise development	−1	(* *)	−1	1	3	2
Overseas Private Investment Corporation	(* *)	−3	−28	42	39	39
Small Business Administration:						
Business loan fund	−1	−5	−8	90	85	84
Disaster loan fund	−337	−232	195	4,214	4,319	3,982
Independent agencies:						
District of Columbia	......	......	−223	......	......	......
Export-Import Bank of the United States	202	1,679	905	3,308	4,784	4,986
Federal Communications Commission:						
Spectrum auction loan fund	−929	−1,092	−2,608	4,502	4,339	3,410
Net Activity, Direct Loan Financing	**5,280**	**18,124**	**11,472**	**65,289**	**78,133**	**83,413**

Note: Federal credit programs provide benefits to the public in the form of direct loans and loan guarantees. This table reflects cash transactions and balances of the nonbudgetary financing fund accounts that result from the disbursement of loans, collection of fees, repayment of principle, sale of collateral, interest, and subsidy received from the credit program accounts at net present value in accordance with the *Credit Reform Act of 1990*. Unreimbursed costs such as administrative expenses and subsidy payments are reported on a cash basis and included within each program's budgetary totals in Table 5.

... No Transactions.

(* *) Less than $500,000.

Note: Details may not add to totals due to rounding.

Table 7. Receipts and Outlays of the U.S. Government by Month, Fiscal Year 1999
[$ millions]

Classification	Oct.	Nov.	Dec.	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Fiscal Year To Date	Comparable Period Prior F.Y.
Receipts:														
Individual income taxes	60,255	51,341	75,988	99,863	42,880	50,591	164,919	30,661	93,020	59,992	60,719	89,250	879,480	828,587
Corporation income taxes	1,758	3,440	42,374	5,130	1,176	18,553	21,699	3,948	39,264	3,405	3,697	40,235	184,680	188,677
Social insurance and retirement receipts:														
Employment and general retirement	39,690	42,940	47,869	53,725	43,735	48,592	60,186	45,617	54,380	44,392	44,960	54,794	580,880	540,015
Unemployment insurance	1,142	2,655	315	867	2,594	269	4,547	7,731	370	1,573	4,085	332	26,480	27,484
Other retirement	405	331	417	337	353	355	428	350	393	403	344	356	4,472	4,335
Excise taxes	9,630	6,021	5,446	4,806	3,892	5,880	5,579	4,978	5,880	5,723	5,397	7,167	70,399	57,669
Estate and gift taxes	2,089	2,132	2,239	2,206	1,600	2,172	5,138	1,942	1,857	1,938	2,175	2,294	27,782	24,076
Customs duties	1,776	1,380	1,472	1,286	1,403	1,546	1,350	1,256	1,599	1,725	1,814	1,727	18,336	18,297
Miscellaneous receipts	3,228	3,738	2,527	3,509	1,868	2,457	2,383	2,181	2,742	2,771	3,131	4,242	34,777	32,325
Total—Receipts this year	**119,974**	**113,978**	**178,646**	**171,728**	**99,502**	**130,416**	**266,229**	**98,663**	**199,507**	**121,923**	**126,324**	**200,396**	**1,827,285**	......
(On-budget)	**90,064**	**81,836**	**143,338**	**129,927**	**65,146**	**92,548**	**219,490**	**62,723**	**156,929**	**87,959**	**91,554**	**161,304**	**1,382,817**	......
(Off-budget)	**29,910**	**32,142**	**35,309**	**41,801**	**34,356**	**37,867**	**46,739**	**35,940**	**42,578**	**33,964**	**34,770**	**39,093**	**444,468**	......
Total—Receipts prior year	*114,898*	*103,481*	*167,998*	*162,610*	*97,952*	*117,930*	*261,002*	*95,278*	*187,858*	*119,723*	*111,741*	*180,995*	......	*1,721,465*
(On budget)	*87,082*	*73,689*	*135,341*	*123,368*	*65,051*	*80,647*	*216,988*	*61,791*	*144,970*	*87,819*	*79,134*	*149,785*	......	*1,305,666*
(Off budget)	*27,816*	*29,792*	*32,657*	*39,243*	*32,900*	*37,283*	*44,014*	*33,488*	*42,888*	*31,903*	*32,606*	*31,210*	......	*415,800*
Outlays														
Legislative Branch	326	202	243	199	189	188	196	203	263	199	212	201	2,621	2,600
Judicial Branch	370	250	292	353	308	310	374	309	293	307	311	317	3,793	3,463
Department of Agriculture:														
Commodity Credit Corporation and Foreign Agricultural Service	2,966	5,541	2,967	3,805	736	401	464	239	2,234	72	151	598	20,174	10,734
Other	3,686	3,102	3,502	3,332	3,228	4,573	3,554	3,211	3,786	3,531	3,404	3,801	42,711	43,216
Department of Commerce	397	507	524	320	382	362	389	380	506	379	430	460	5,036	4,047
Department of Defense:														
Military:														
Military Personnel	8,168	3,259	7,946	3,003	5,871	5,477	8,148	3,266	5,899	8,750	3,816	5,898	69,503	68,976
Operation and Maintenance	7,011	6,871	8,046	7,946	6,356	8,505	8,432	7,988	8,197	8,264	7,909	10,895	96,420	93,473
Procurement	3,320	3,388	5,144	3,678	3,649	4,822	3,656	3,678	4,842	4,198	4,422	4,028	48,824	48,207
Research, Development, Test, and Evaluation	3,632	2,500	3,471	3,278	2,613	4,003	2,838	2,661	3,121	3,018	2,861	3,365	37,362	37,421
Military Construction	384	464	522	342	442	434	448	515	525	412	472	559	5,519	6,046
Family Housing	218	300	306	287	304	350	335	287	274	320	308	401	3,692	3,869
Revolving and Management funds	730	30	350	−353	−122	468	317	−404	93	−145	134	−213	884	329
Other	720	−172	−29	81	769	171	−125	171	−143	−24	−262	−1,982	−826	−2,196
Total Military	24,183	16,640	25,756	18,262	19,883	24,230	24,049	18,162	22,808	24,793	19,661	22,951	261,379	256,124
Department of Education	2,758	2,442	3,080	3,132	3,130	4,258	2,194	2,538	2,101	1,973	2,422	3,492	33,521	31,498
Department of Energy	1,439	1,281	1,705	922	1,240	1,169	1,224	1,315	1,581	1,335	1,317	1,551	16,079	14,444
Department of Health and Human Services:														
Public Health Service	2,019	1,883	2,700	1,769	2,117	2,256	2,015	2,032	2,279	2,089	2,168	2,219	25,547	23,680
Health Care Financing Administration:														
Grants to States for Medicaid	9,960	7,853	8,554	8,859	8,561	9,027	9,648	8,138	9,363	9,014	8,964	10,099	108,043	101,234
Federal hospital ins. trust fund	12,195	9,435	12,351	8,573	10,109	12,106	13,441	8,755	11,237	12,098	9,450	11,010	130,759	136,690
Federal supp. med. ins. trust fund	8,426	4,415	8,862	4,385	6,276	7,232	7,788	5,230	7,233	8,300	5,527	6,843	80,518	76,272
Other	5,100	5,090	9,344	3,093	5,267	6,207	7,340	5,141	6,523	5,372	5,426	6,394	70,296	65,749
Administration for Children and Families	2,281	2,507	3,191	2,912	3,018	3,588	2,717	2,843	2,820	2,727	2,773	3,114	34,491	32,590
Other	−6,556	−6,641	−12,299	−3,309	−6,910	−8,057	−8,724	−6,937	−8,268	−6,900	−6,862	−8,492	−89,954	−85,643
Department of Housing and Urban Development	2,930	2,049	3,359	2,793	1,937	2,344	1,969	2,855	2,616	2,290	2,816	4,776	32,736	30,224
Department of the Interior	684	599	1,006	457	826	600	481	510	500	668	638	805	7,773	7,232
Department of Justice	1,285	1,555	1,471	1,472	1,322	1,506	1,946	1,306	1,823	1,333	1,638	1,661	18,318	16,169
Department of Labor:														
Unemployment trust fund	1,658	1,601	2,141	2,463	2,389	2,771	2,223	1,852	2,060	1,874	2,003	1,834	24,870	23,408
Other	751	627	375	555	261	447	833	767	500	883	766	822	7,589	6,585
Department of State	504	808	816	374	485	499	583	434	373	612	477	497	6,464	5,373
Department of Transportation:														
Highway trust fund	2,110	1,917	1,932	1,367	1,175	1,499	1,519	1,775	2,235	2,115	2,506	2,702	22,854	20,067
Other	1,633	1,743	1,747	1,372	1,309	1,389	1,501	1,437	1,894	1,590	1,534	1,816	18,965	19,380
Department of the Treasury:														
Interest on the public debt	20,655	25,440	69,882	19,828	19,870	21,278	20,337	25,383	70,054	19,223	21,776	19,785	353,511	363,824
Other	2,126	61	2,556	1,201	11,216	8,199	4,259	1,771	3,012	1,780	−305	−2,106	33,769	26,270
Department of Veterans Affairs:														
Compensation and pensions	3,296	100	3,335	113	1,789	1,819	3,412	141	1,783	3,403	180	1,777	21,148	20,289
National service life	77	70	79	81	75	101	93	84	74	86	77	101	997	994
United States Government Life	1	1	1	1	1	1	2	1	(* *)	1	1	1	12	12
Other	2,089	1,654	1,730	1,629	1,697	1,754	1,976	1,660	1,771	1,652	1,646	1,754	21,012	20,480

Table 7. Receipts and Outlays of the U.S. Government by Month, Fiscal Year 1999—Continued

[$ millions]

Classification	Oct.	Nov.	Dec.	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Fiscal Year To Date	Comparable Period Prior F.Y.
Outlays—Continued														
Corps of Engineers	298	484	501	262	312	347	235	257	285	364	352	490	4,186	3,833
Other Defense Civil Programs	2,636	2,632	2,654	2,678	2,682	2,693	2,707	2,666	2,666	2,664	2,668	2,662	32,008	31,216
Environmental protection	486	515	639	447	516	593	573	537	666	563	608	609	6,752	6,288
Executive Office of the President	13	46	105	18	74	20	40	21	19	20	20	21	416	236
Federal Emergency Management Agency	381	665	782	434	238	343	184	194	328	130	211	151	4,040	2,101
General Services Administration	29	424	−414	−31	−62	165	66	−26	104	−65	−167	−69	−46	1,095
International Assistance Program:														
International Security Assistance	235	3,145	258	133	19	79	305	109	377	160	−32	607	5,395	4,950
Multilateral Assistance	349	3	6	267	138	42	554	35	69	248	32	115	1,857	1,850
International Development Assistance	280	95	326	108	297	47	233	221	222	153	118	316	2,418	2,494
Other	−969	914	−276	260	522	400	29	62	60	−564	229	−277	389	−314
National Aeronautics and Space Administration	1,085	1,114	1,452	988	889	1,178	1,111	1,140	1,281	1,051	1,113	1,261	13,664	14,206
National Science Foundation	249	249	240	278	247	253	249	261	328	294	339	299	3,285	3,188
Office of Personnel Management	3,890	3,912	4,061	3,732	3,694	4,104	3,814	3,963	4,047	4,079	3,856	4,363	47,515	46,307
Small Business Administration	16	39	34	156	−828	49	34	12	114	21	160	249	58	−78
Social Security Administration:														
Federal old-age and survivors ins. trust fund (off-budget)	27,460	27,438	53,764	1,880	27,815	27,952	27,944	27,966	31,787	27,936	27,864	28,109	337,916	329,769
Federal disability ins. trust fund (off-budget)	4,179	4,132	7,776	765	4,278	4,341	4,373	4,325	4,505	4,498	4,526	4,445	52,142	49,459
Other	4,710	159	4,776	181	2,446	2,488	4,803	71	2,550	4,812	269	2,466	29,732	28,974
Independent agencies:														
Fed. Deposit Ins. Corp:														
Bank insurance fund	−123	−161	−163	218	−194	−89	−49	−263	−71	110	−276	310	−751	−1,219
Savings association insurance fund	−2	−74	−30	16	−45	−64	−38	−41	−71	75	−95	−28	−397	−448
FSLIC resolution fund:														
RTC closeout	−296	−1,005	−319	−210	−69	−177	−133	−268	−187	−256	−35	−409	−3,364	−2,169
Other	21	−9	−7	−21	−9	−12	−11	−10	−17	−45	−23	−76	−218	−314
Office of Inspector General	......	......	......	(* *)	(* *)	......	7	......	......	......	13	8	28	29
Postal Service:														
Public enterprise funds (off-budget)	933	8	−1,429	−269	−219	−969	446	−140	15	−115	−527	3,286	1,021	217
Payment to the Postal Service fund	......	......	......	......	......	......	......	29	......	......	......	......	29	86
Tennessee Valley Authority	73	89	42	−28	−221	29	−18	14	121	−29	−65	−7	2	−784
Other independent agencies	1,611	1,588	1,329	1,233	1,246	1,154	1,091	−1,738	−2,258	1,428	1,335	2,496	10,515	15,256
Undistributed offsetting receipts:														
Employer share, employee retirement	−2,861	−2,347	−2,746	−2,544	−2,522	−2,583	−2,827	−2,606	−2,711	−3,151	−2,620	−6,076	−35,594	−34,872
Interest received by trust funds	−1,404	−5,390	−50,164	−55	−1,110	−825	−606	−5,438	−51,177	−31	−1,381	−1,052	−118,634	−113,839
Rents and royalties on outer continental shelf lands	−217	−481	−316	14	−178	−379	−149	−33	−567	−6	−475	−311	−3,098	−4,522
Sale of major assets	......	......	......	......	......	......	......	......	......	......	......	......	......	−5,158
Other	(* *)	(* *)	−281	......	......	−414	(* *)	−226	(* *)	−56	......	−777	−1,754	−2,645
Totals this year:														
Total outlays	**152,413**	**130,915**	**183,803**	**101,223**	**141,847**	**152,825**	**152,770**	**122,631**	**145,939**	**147,086**	**129,127**	**143,966**	**1,704,545**	......
(On-budget)	**123,752**	**99,975**	**149,258**	**102,385**	**110,656**	**122,211**	**123,474**	**91,435**	**136,141**	**117,652**	**97,983**	**108,846**	**1,383,767**	......
(Off-budget)	**28,661**	**30,940**	**34,544**	**−1,162**	**31,192**	**30,614**	**29,296**	**31,197**	**9,798**	**29,434**	**31,143**	**35,120**	**320,778**	......
Total-surplus (+) or deficit (−)	**−32,440**	**−16,937**	**−5,156**	**+70,505**	**−42,345**	**−22,409**	**+113,459**	**−23,969**	**+53,568**	**−25,164**	**−2,803**	**+56,430**	**+122,740**	......
(On-budget)	**−33,688**	**−18,139**	**−5,921**	**+27,542**	**−45,509**	**−29,662**	**+96,016**	**−28,712**	**+20,788**	**−29,693**	**−6,430**	**+52,458**	**−951**	......
(Off-budget)	**+1,249**	**+1,202**	**+765**	**+42,963**	**+3,164**	**+7,253**	**+17,443**	**+4,744**	**+32,779**	**+4,530**	**+3,627**	**+3,973**	**+123,691**	......
Total borrowing from the public	**15,309**	**22,313**	**−5,383**	**−31,250**	**1,692**	**37,073**	**−85,211**	**−547**	**−22,264**	**1,193**	**26,470**	**−47,718**	**−88,323**	**−51,211**
Total-outlays prior year	*150,866*	*120,830*	*154,359*	*137,231*	*139,701*	*131,743*	*136,400*	*134,057*	*136,752*	*143,807*	*122,907*	*143,569*	......	*1,652,224*
(On-budget)	*123,866*	*91,326*	*146,648*	*108,844*	*109,393*	*101,967*	*108,570*	*102,382*	*125,603*	*115,713*	*92,555*	*108,755*	......	*1,335,622*
(Off-budget)	*27,000*	*29,504*	*7,711*	*28,388*	*30,308*	*29,775*	*27,830*	*31,675*	*11,149*	*28,094*	*30,353*	*34,814*	......	*316,602*
Total-surplus (+) or deficit (−) prior year	*−35,968*	*−17,349*	*+13,639*	*+25,379*	*−41,750*	*−13,813*	*+124,603*	*−38,779*	*+51,106*	*−24,084*	*−11,166*	*+37,425*	......	*+69,242*
(On-budget)	*−36,784*	*−17,637*	*−11,307*	*+14,524*	*−44,342*	*−21,320*	*+108,419*	*−40,591*	*+19,367*	*−27,894*	*−13,420*	*+41,029*	......	*−29,956*
(Off-budget)	*+816*	*+287*	*+24,946*	*+10,855*	*+2,592*	*+7,508*	*+16,184*	*+1,812*	*+31,739*	*+3,809*	*+2,254*	*−3,604*	......	*+99,198*

... No transactions.
(* *) Less than $500,000.
Note: Details may not add to totals due to rounding.

Table 8. Trust Fund Impact on Budget Results and Investment Holdings as of September 30, 1999

[$ millions]

Classification	This Month			Fiscal Year to Date			Securities held as Investments Current Fiscal Year		
							Beginning of		Close of This Month
	Receipts	Outlays	Excess	Receipts	Outlays	Excess	This Year	This Month	
Trust receipts, outlays, and investments held:									
Airport and airway	1,171	820	352	11,090	8,056	3,034	8,550	12,312	12,414
Black lung disability	48	554	−506	598	1,000	−401	......	......	......
Federal disability insurance	5,475	4,445	1,031	67,792	52,142	15,650	76,996	91,630	92,686
Federal employees life and health	......	154	−154	......	−961	961	25,641	26,742	26,590
Federal employees retirement	26,166	3,853	22,313	75,714	44,497	31,216	460,629	469,489	491,855
Federal hospital insurance	16,996	11,079	5,917	153,015	131,501	21,514	118,250	141,955	153,767
Federal old-age and survivors insurance	34,337	28,109	6,229	446,977	337,916	109,062	653,282	755,857	762,226
Federal supplementary medical insurance	6,892	6,843	49	85,278	80,518	4,760	39,502	32,303	26,528
Hazardous substance superfund	234	168	66	876	1,577	−700	5,296	4,552	4,593
Highways	4,254	2,853	1,402	39,179	28,897	10,281	17,926	26,333	28,083
Military advances	1,176	1,154	22	11,624	12,159	−535	......	......	......
Military retirement	1,265	2,675	−1,409	38,227	31,889	6,338	133,843	142,585	141,274
Railroad retirement	374	678	−304	8,763	8,390	374	21,811	24,149	24,345
Unemployment	366	1,841	−1,474	31,681	24,938	6,743	70,641	78,782	77,368
Veterans life insurance	18	129	−111	1,152	1,176	−24	13,722	13,813	13,699
All other trust	534	1,015	−481	7,400	8,305	−904	9,601	13,748	13,793
Total trust fund receipts and outlays and investments held from Table 6-D	**99,306**	**66,368**	**32,939**	**979,367**	**772,000**	**207,367**	**1,655,688**	**1,834,247**	**1,869,191**
Less: Interfund transactions	38,208	38,208	......	315,486	315,486	......			
Trust fund receipts and outlays on the basis of Tables 4 & 5	61,099	28,160	32,939	663,881	456,513	207,367			
Total Federal fund receipts and outlays	**139,840**	**116,348**	**23,492**	**1,164,486**	**1,249,113**	**−84,627**			
Less: Interfund transactions	542	542	......	1,082	1,082	......			
Federal fund receipts and outlays on the basis of Table 4 & 5	139,298	115,806	23,492	1,163,405	1,248,032	−84,627			
Net budget receipts & outlays	**200,396**	**143,966**	**56,430**	**1,827,285**	**1,704,545**	**122,740**			

Note: Interfund receipts and outlays are transactions between Federal funds and trust funds such as Federal payments and contributions, and interest and profits on investments in Federal securities. They have no net effect on overall budget receipts and outlays since the receipts side of such transactions is offset against bugdet outlays. In this table, Interfund receipts are shown as an adjustment to arrive at total receipts and outlays of trust funds respectively.

Table 9. Summary of Receipts by Source, and Outlays by Function of the U.S. Government, September 1999 and Other Periods

[$ millions]

Classification	This Month	Fiscal Year To Date	Comparable Period Prior Fiscal Year
NET RECEIPTS			
Individual income taxes	89,250	879,480	828,587
Corporation income taxes	40,235	184,680	188,677
Social insurance and retirement receipts:			
Employment and general retirement	54,794	580,880	540,015
Unemployment insurance	332	26,480	27,484
Other retirement	356	4,472	4,335
Excise taxes	7,167	70,399	57,669
Estate and gift taxes	2,294	27,782	24,076
Customs duties	1,727	18,336	18,297
Miscellaneous receipts	4,242	34,777	32,325
Total	**200,396**	**1,827,285**	**1,721,465**
NET OUTLAYS			
National defense	24,279	276,792	268,456
International affairs	1,371	15,264	13,103
General science, space, and technology	1,773	19,397	18,219
Energy	375	981	1,270
Natural resources and environment	2,249	22,303	22,396
Agriculture	1,196	24,359	12,206
Commerce and housing credit	7,361	2,966	1,014
Transportation	4,260	38,856	40,332
Community and regional development	1,330	12,791	9,720
Education, training, employment and social services	5,437	57,438	54,883
Health	13,031	140,803	131,100
Medicare	16,100	190,448	192,822
Income security	16,897	237,180	233,302
Social security	32,581	390,043	379,225
Veterans benefits and services	3,615	43,210	41,781
Administration of justice	2,306	25,837	22,832
General government	1,712	16,058	13,398
Net interest	15,259	230,265	243,359
Undistributed offsetting receipts	−7,164	−40,445	−47,194
Total	**143,966**	**1,704,545**	**1,652,224**

...... No transactions

Note: Details may not add to totals due to rounding

:xplanatory Notes

. Flow of Data Into Monthly Treasury Statement

The Monthly Treasury Statement (MTS) is assembled from data in the entral accounting system. The major sources of data include monthly ccounting reports by Federal entities and disbursing officers, and daily eports from the Federal Reserve banks. These reports detail accounting ransactions affecting receipts and outlays of the Federal Government ind off-budget Federal entities, and their related effect on the assets and iabilities of the U.S. Government. Information is presented in the *MTS* on ı modified cash basis.

!. Notes on Receipts

Receipts included in the report are classified into the following major :ategories: (1) budget receipts and (2) offsetting collections (also called ıpplicable receipts). Budget receipts are collections from the public that esult from the exercise of the Government's sovereign or governmental owers, excluding receipts offset against outlays. These collections, also alled governmental receipts, consist mainly of tax receipts (including ocial insurance taxes), receipts from court fines, certain licenses, and eposits of earnings by the Federal Reserve System. Refunds of receipts re treated as deductions from gross receipts.

Offsetting collections are from other Government accounts or the ublic that are of a business-type or market-oriented nature. They are lassified into two major categories: (1) offsetting collections credited to ppropriations or fund accounts, and (2) offsetting receipts (i.e., amounts eposited in receipt accounts). Collections credited to appropriation or ınd accounts normally can be used without appropriation action by :ongress. These occur in two instances: (1) when authorized by law, mounts collected for materials or services are treated as reimburse-ıents to appropriations and (2) in the three types of revolving funds ıublic enterprise, intragovernmental, and trust); collections are netted gainst spending, and outlays are reported as the net amount.

Offsetting receipts in receipt accounts cannot be used without being ppropriated. They are subdivided into two categories: (1) proprietary :ceipts—these collections are from the public and they are offset against ıtlays by agency and by function, and (2) intragovernmental funds—ıese are payments into receipt accounts from Governmental appropria-ın or funds accounts. They finance operations within and between overnment agencies and are credited with collections from other overnment accounts. The transactions may be intrabudgetary when the ıyment and receipt both occur within the budget or from receipts from :f-budget Federal entities in those cases where payment is made by a ederal entity whose budget authority and outlays are excluded from the ıdget totals.

Intrabudgetary transactions are subdivided into three categories:) interfund transactions, where the payments are from one fund group ither Federal funds or trust funds) to a receipt account in the other fund oup; (2) Federal intrafund transactions, where the payments and ceipts both occur within the Federal fund group; and (3) trust intrafund nsactions, where the payments and receipts both occur within the trust ıd group.

Offsetting receipts are generally deducted from budget authority and tlays by function, by subfunction, or by agency. There are four types of ceipts, however, that are deducted from budget totals as undistributed setting receipts. They are: (1) agencies' payments (including payments off-budget Federal entities) as employers into employees retirement ıds, (2) interest received by trust funds, (3) rents and royalties on the ıter Continental Shelf lands, and (4) other interest (i.e., interest collected Outer Continental Shelf money in deposit funds when such money is nsferred into the budget).

Notes on Outlays

Outlays are generally accounted for on the basis of checks issued, ctronic funds transferred, or cash payments made. Certain outlays do t require issuance of cash or checks. An example is charges made ainst appropriations for that part of employees' salaries withheld for es or savings bond allotments — these are counted as payments to employee and credits for whatever purpose the money was withheld.

Outlays are stated net of offsetting collections (including receipts of revolving and management funds) and of refunds. Interest on the public debt (public issues) is recognized on the accrual basis. Federal credit programs subject to the Federal Credit Reform Act of 1990 use the cash basis of accounting and are divided into two components. The portion of the credit activities that involve a cost to the Government (mainly subsidies) is included within the budget program accounts. The remaining portion of the credit activities are in non-budget financing accounts. Outlays of off-budget Federal entities are excluded by law from budget totals. However, they are shown separately and combined with the on-budget outlays to display total Federal outlays.

4. Processing

The data on payments and collections are reported by account symbol into the central accounting system. In turn, the data are extracted from this system for use in the preparation of the *MTS.*

There are two major checks which are conducted to assure the consistency of the data reported:

1. Verification of payment data. The monthly payment activity reported by Federal entities on their Statements of Transactions is compared to the payment activity of Federal entities as reported by disbursing officers.
2. Verification of collection data. Reported collections appearing on Statements of Transactions are compared to deposits as reported by Federal Reserve banks.

5. Other Sources of Information About Federal Government Financial Activities

- *A Glossary of Terms Used in the Federal Budget Process, January 1993* (Available from the U.S. General Accounting Office, P.O. Box 6015, Gaithersburg, Md. 20877). This glossary provides a basic reference document of standardized definitions of terms used by the Federal Government in the budgetmaking process.

- *Daily Treasury Statement* (Available from GPO, Washington, D.C. 20402, on a subscription basis only and on the Internet at http://www.fms.treas.gov/). *The Daily Treasury Statement* is published each working day of the Federal Government and provides data on the cash and debt operations of the Treasury.

- *Monthly Statement of the Public Debt of the United States* (Available from GPO, Washington, D.C. 20402 on a subscription basis only and on the Internet at http://www.publicdebt.treas.gov/opd/opd.htm). This publication provides detailed information concerning the public debt.

- *Treasury Bulletin* (Available from GPO, Washington, D.C. 20402, by subscription or single copy and on the Internet at http://www.fms.treas.gov/). Quarterly. Contains a mix of narrative, tables, and charts on Treasury issues, Federal financial operations, international statistics, and special reports.

- *Budget of the United States Government, Fiscal Year 19 __* (Available from GPO, Washington, D.C. 20402 and on the Internet at http://access.gpo.gov/). This publication is a single volume which provides budget information and contains:

  -Budget of the United States Government, FY 19 __
  -Appendix, The Budget of the United States Government, FY 19 __
  -Analytical Perspectives
  -Historical Tables
  -Citizens Guide to the Federal Budget

- *United States Government Annual Report and Appendix* (Available from Financial Management Service, U.S. Department of the Treasury, Washington, D.C. 20227). This annual report represents budgetary results at the summary level. The appendix presents the individual receipt and appropriation accounts at the detail level.

Scheduled Release

The release date for the October 1999 Statement will be 2:00 pm EST November 22, 1999.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED UNTIL 10:00 A.M. EDT
Text as prepared for Delivery
October 27, 1999

TREASURY DEPUTY SECRETARY STUART E. EIZENSTAT TESTIMONY BEFORE THE SENATE COMMITTEE ON JUDICIARY

Mr. Chairman, Ranking Member Leahy and Members of the Committee:

Good morning. I am here to discuss the Administration's position on proposals to further amend the Foreign Sovereign Immunities Act ("FSIA").

Let me begin by expressing the Administration's and my own personal sympathy to victims of international terrorism -- an evil that this Administration has taken world leadership in combating. It is the responsibility of the United States Government to do everything possible to protect American lives from international terrorism. People like the Flatows and the families of the Brothers to the Rescue deserve government support in their demand to be compensated for their grievous losses. The Administration is dedicated to working with the Congress to achieve this goal by setting up a commission which would recommend proposals to the President and to the Congress to help families of the victims of international terrorism receive compensation. But this must be done in a way that is consistent with our national interest, not done in a piecemeal fashion, and does not touch blocked assets or diplomatic property to achieve this end. The commission would also review all other aspects of the problems presented by acts of international terrorism.

International terrorism is an all too common evil in today's world, affecting the lives of too many Americans. In my capacity as the President's Special Representative for Cuban Democracy, I met in Miami with the families of the "Brothers to the Rescue" members who were shot down by Cuba. It was an unforgettable experience and one that personalized for me the brutality of the Castro regime. I have also met on several occasions with Mr. Flatow, who lost his daughter Alisa in a bomb attack in Gaza. I was touched by the depth of suffering, as well as impressed by the strength and determination of the families to seek justice for their loved ones. We understand the frustrations that have led the sponsors of this legislation to introduce it. These plaintiffs have suffered grievously at the hands of terrorists and should be compensated by those responsible.

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However, it should come as no surprise that the states involved here -- states that we have publicly branded as sponsors of terrorism -- do not view the United States as a cordial environment to conduct financial transactions. As part of our efforts to combat terrorism, we impose a wide range of economic sanctions against state sponsors of terrorism in order to deprive them of the resources to fund acts of terrorism and to affect their conduct. Because of these measures, terrorism-list states engage in minimal economic activity in the United States. In many cases, the only assets that states which sponsor terrorism have in the United States are either blocked or diplomatic property. Such property is not legally available for attachment and execution of judgments, for very good reasons involving the security and interests of the entire nation, which I will describe in detail.

As much as we join the sponsors of this bill in desiring to have victims of international terrorism compensated, it would be unwise in the extreme to ignore these reasons and forgo the interests of all our citizens for this purpose.

The legislation before the Committee today, though born of good intentions, is fundamentally flawed. The legislation would have five principal effects, all of which would be seriously damaging to important U.S. interests.

First, blocking assets of terrorist states is one of the most significant economic sanctions tools available to the President. This legislation would undermine the President's ability to combat international terrorism and other threats to national security by permitting the attachment of blocked property, thereby depriving the U.S. of a source of leverage, such as was used to gain the release of our citizens held hostage in Iran.

Second, it could cause the U.S. to violate our obligations to protect diplomatic property of other nations, and would put our own diplomatic property around the world at risk.

Third, it would benefit one small group of Americans over a far larger group of Americans. Those with judgments in court since the FSIA amendments of 1996 would benefit over others, many of whom have waited decades to be compensated by Cuba and Iran for both the loss of property and the loss of the lives of their loved ones, and would leave no assets for their claims and others that may follow.

Fourth, it would breach the long-standing principle that the United States Government has sovereign immunity from garnishment, thereby preventing the U.S. Government from making good on its debts and potentially causing the U.S. taxpayer to incur substantial financial liability.

Fifth, it would direct courts to ignore the separate legal status of states and their agencies and instrumentalities, overturning Supreme Court precedent and basic principles of corporate and international law by making state-owned corporations liable for the debts of the state.

As The Washington Post observed in a recent editorial, "Victims of terrorism certainly should be compensated, but a mechanism that permits individual recovery to take precedence over significant foreign policy interests is flawed." The proposed legislation would indeed seriously compromise important national security, foreign policy, and other clear national interests, and discriminate among and between past and future U.S. claimants. For the reasons which I will explain in detail during the course of my remarks, the Administration strongly opposes the proposed legislation.

Attachment of Blocked and Diplomatic Property

I want to begin by explaining the Administration's grave concerns with the provisions of the legislation that seek to nullify the President's waiver of last year's Foreign Sovereign Immunities Act amendments and thereby permit attachment of blocked and diplomatic property.

Let us be entirely clear: attachment of blocked or diplomatic property would compromise our national security and would seriously prejudice a number of important national interests. These interests include:

- our interest in the effective functioning and preservation of our asset blocking programs to combat threats to our national security and to the safety of American citizens abroad;
- our legal obligation to protect the diplomatic property of foreign states, regardless of the status of our relations with those states, and our clear national interest in upholding the international legal regime that protects U.S. diplomatic property and personnel abroad; and
- our interest in avoiding laws that would create gross inequities in the amounts of compensation received by similarly situated U.S. nationals with claims against foreign governments.

I will address each of these concerns in turn.

Elimination of the Effectiveness of Our Blocking Programs

The ability to block assets represents one of the primary tools available to the United States to deter aggression and discourage or end hostile actions against U.S. citizens abroad. Our efforts to combat threats to our national security posed by terrorism-list countries such as Iraq, Libya, Cuba, and Sudan rely upon our ability to block the assets of those countries.

Blocking assets permits the United States to deprive such countries of resources that they could use to harm our interests, and to disrupt their ability to carry out international financial transactions. By placing the assets of such countries in the sole control of the President, blocking programs permit the President at any time to withhold substantial benefits from countries whose conduct we abhor, and to offer a potential incentive to such countries to reform their conduct. Our blocking programs thus provide the United States with a unique and flexible form of leverage over countries that engage in threatening conduct.

The Congress has recognized the need for the President to be able to regulate the assets of foreign states to meet threats to the U.S. national security, foreign policy and economy. In both the International Emergency Economic Powers Act and the Trading with the Enemy Act, the Congress has provided the President with statutory authority for regulating foreign assets. On the basis of this authority and foreign policy powers under the Constitution, Presidents have blocked property and interests in property of foreign states and foreign nationals that today amounts to over $3.4 billion.

The Supreme Court has also recognized the importance of the President's blocking authority, stating that such blocking orders "permit the President to maintain the foreign assets at his disposal for use in negotiating the resolution of a declared national emergency. The frozen assets serve as a 'bargaining chip' to be used by the President when dealing with a hostile country," Dames & Moore v. Regan, 453 U.S. 654, 673 (1981).

The leverage provided by blocked assets has proved central to our ability to protect important U.S. national security and foreign policy interests. The most striking example is the Iran Hostage Crisis from 1979-1981. The critical bargaining chip the United States had to bring to the table in an effort to resolve the crisis was the almost $10 billion in Iranian Government assets that the President had blocked shortly after the taking of our embassy. This was a decision in which I was involved as President Carter's Chief Domestic Adviser. Because the return of the blocked assets was one of Iran's principal conditions for the release of the hostages, we would not have been able to secure the safe release of the hostages and to settle thousands of claims of U.S. nationals if those blocked assets had not been available. This settlement with Iran also resulted in the eventual payment of $7.5 billion in claims to or for the benefit of U.S. nationals against Iran.

In the case of Vietnam, the leverage provided by approximately $350 million in blocked assets, combined with Vietnam's inability to gain access to U.S. technology and trade, played an important role in persuading Vietnam's leadership to address important U.S. concerns in the normalization process. These concerns included full accounting of POWs and MIAs from the Vietnam War, accepting responsibility for over $200 million in U.S. claims which had been adjudicated by the Foreign Claims Settlement Commission, and moderating Vietnamese actions in Cambodia.

In addition, blocked assets have helped us to secure equitable settlements of claims of U.S. nationals against such countries as Romania, Bulgaria and Cambodia in the context of normalization of relations. These results could not have been achieved without effective blocking programs.

However, our blocking programs simply cannot function, and cannot serve to protect these important interests, if blocked assets are subject to attachment and execution by private parties, as the proposed legislation would permit. The ability to use blocked assets as leverage against foreign states that threaten U.S. interests is essentially eliminated if the President is unable to preserve and control the disposition of such assets. Private rights of execution against blocked assets would permanently rob the President of the leverage blocking provides by depleting the pool of blocked assets.

In the Cuban and Iranian contexts, for example, the value of the judgments won by the Brothers to the Rescue families exceeds the total known value of the blocked assets of the Government of Cuba in the United States, and the value of the judgment won by the Flatow family or the former Beirut Hostages exceeds the total known value of the blocked assets of the Government of Iran in the United States. Attachment of blocked assets to satisfy private judgments in these and similar cases would leave no remaining assets of terrorism-list governments in the President's control, denying the President an important source of leverage and seriously weakening his hand in dealing with threats to our national security.

In addition, the prospect of future attachments by private parties would place a perpetual cloud over the President's ongoing control over blocked assets. This would further undermine the President's ability to use such assets as leverage in negotiations, even where attachments had not yet occurred.

Put simply, permitting attachment of blocked assets would eliminate the use of our blocking programs as a key tool for combating threats against our national security.

Our Obligation and Interest in Protecting Diplomatic Property

The proposed legislation also could cause the United States to violate our obligations under international law to protect diplomatic property, and would undermine the legal protections for diplomatic property on which we rely every day to protect the safety of our diplomatic property and personnel abroad. Even though the current version of the legislation before the Committee provides protection for a slightly broader range of diplomatic property than previous versions, it is still fundamentally flawed in its failure to permit the President to protect properties, including consular properties, some diplomatic bank accounts, and diplomatic residences, which international law obligates us to protect.

The United States' legal obligation to prevent the attachment of diplomatic property could not be clearer. Protection of diplomatic property is required by the Vienna Convention on Diplomatic Relations, to which the United States and all of the states against which suits presently may be brought under the 1996 amendments to the FSIA are parties. Under Article 45 of the Vienna Convention on Diplomatic Relations we are obligated to protect the premises of diplomatic missions, together with their real and personal property and archives, of countries with which we have severed diplomatic relations or are in armed conflict. This would include diplomatic residences owned by the foreign state.

Likewise, under Article 27 of the Vienna Convention on Consular Relations, the same protection is required for consular premises, property, and archives. Attachment of any of the types of property covered by the Vienna Conventions on Diplomatic and Consular Relations could place the United States in violation of our obligations under international law. The proposed legislation would only permit the President to ensure the protection of a narrow portion of the property covered by the Vienna Conventions, and would thereby place the United States in violation of our legal obligations.

In addition, the proposed legislation as drafted could cause us to breach our obligations to ensure the inviolability of missions to the United Nations, pursuant to the UN Headquarters Agreement and the General Convention on Privileges and Immunities.

Nor could our national interest in the protection of diplomatic property be clearer or more important. The United States owns over 3000 buildings and other structures abroad that it uses as embassies, consulates, missions to international organizations, and residences for our diplomats. The total value of this property is between $12 and $15 billion.

Because we have more diplomatic property and personnel abroad than any other country, we are more at risk than any other country if the protections for diplomatic and consular property are eroded. If we flout our obligations to protect the diplomatic and consular property of other countries, then we can expect other countries to target our diplomatic property when they disagree strongly with our policies or actions. Defending our national interests abroad often makes the United States unpopular with some foreign governments. We should not give those states who wish the United States ill an easy means to strike at us by declaring diplomatic property fair game.

In the specific case of Iran, attachment of Iran's diplomatic and consular properties could also result in substantial U.S. taxpayer liability. Iran's diplomatic and consular properties in the United States are the subject of a claim brought by Iran against the United States before the Iran-U.S. Claims Tribunal. I will say more about the Tribunal later in my remarks. For the moment, let me simply note that, although we are contesting this claim vigorously, the Tribunal could find that the United States should have transferred Iran's diplomatic and consular property to it in 1981. If it does so and the properties are not available because they have been liquidated to pay private judgments, the U.S. taxpayer would have to bear the cost of compensating Iran for the value of the properties. Such an award against the United States would be enforceable in the courts of any country, under the laws of that country.

Equity Among Claimants

The proposed legislation would also frustrate equity among U.S. nationals with claims against terrorism-list states. It would create a winner-take-all race to the courthouse, arbitrarily permitting recovery for the first, or first few, claimants from limited available assets, leaving other similarly situated claimants with no recovery at all. In fact, it would take away assets potentially available to them.

As I noted earlier, the value of the judgments held by the families of the Brothers to the Rescue victims exceeds the total value of blocked assets of the Government of Cuba in the United States. Similarly, even if the plaintiffs in the Flatow case were to succeed in attaching all of Iran's diplomatic and consular properties in the United States, these properties would be insufficient to satisfy even one tenth of the damages awarded in that judgment. In each case, execution on their judgments would exhaust all of the blocked assets of these governments in the United States.

However, the Alejandre and Flatow cases do not represent the only claims of U.S. nationals against Cuba and Iran. No other claimants would benefit at all from the proposed legislation; indeed this legislation would seriously prejudice their interests.

In the case of Cuba, the U.S. Foreign Claims Settlement Commission has certified 5,911 claims of U.S. nationals against the Government of Cuba, totaling approximately $6 billion with interest, dating back to the early 1960s. These include the wrongful death claims of family members of two individuals whom the Cuban Government executed after summary trial for alleged crimes against the Cuban state. Other claims relate to the Castro Government's seizure of homes and businesses from U.S. nationals. These claimants have waited over 35 years without yet receiving compensation for their losses. This bill will not help them at all.

The same situation applies with respect to Iran. In addition to the Flatow case, the plaintiffs in the Beirut Hostage case -- David Jacobsen, Joseph Cicippio, Frank Reed, and their families - collectively have won judgments against Iran totaling $65 million arising from the three men being held hostage in Lebanon. Similar suits against Iran, including one brought by Terry Anderson for damages related to his captivity, are currently pending in the Federal District courts.

Moreover, given the nature of these regimes, it remains possible that in spite of our substantial efforts to combat terrorism, foreign terrorist states will commit future acts in violation of the rights of U.S. nationals, which may give rise to claims against them. If such incidents occur, these claimants will also have an interest in being compensated.

Against this background, in which outstanding claims far exceed available funds, the proposed legislation would permit the first claimants to reach the courthouse to deplete all the available assets of terrorism-list governments, leaving nothing for other similarly situated claimants. Satisfaction of the judgments in the Brothers to the Rescue and Flatow cases would come at the expense of all other claimants against Cuba and Iran, both past and future. This would be fundamentally unfair.

Equitable resolution of all outstanding claims of terrorism-list states must be accomplished systematically in order to ensure fairness to all parties, not in the piecemeal fashion envisioned by the proposed legislation.

In sum, permitting the attachment of blocked and diplomatic properties in individual cases, as the proposed legislation would do, would

- undermine our ability to combat threats to our national security,
- violate our obligations under international law,
- place our diplomatic properties and personnel abroad at risk, and
- lead to arbitrary inequities in the treatment of similarly situated U.S. nationals with claims against foreign governments.

Breaching the Sovereign Immunity of the United States

Let me turn next to the provision of the proposed legislation which would permit garnishment of debts of the United States. This provision would breach the long-established principle that the United States Government has sovereign immunity from garnishment actions. This provision is of particular concern because it would result in the U.S. taxpayer being liable for millions, and perhaps hundreds of millions, of dollars by prejudicing the position of the United States with respect to claims pending before the Iran-U.S. Claims Tribunal in The Hague.

Let me say a few words about the Iran-U.S. Claims Tribunal. The Iran-U.S. Claims Tribunal is an arbitration court located at The Hague in the Netherlands. It was established as part of the agreement between Iran and the United States that freed the U.S. hostages in Iran and resolved outstanding claims that were then pending between the United States and Iran. Pursuant to this agreement and awards of the Tribunal, Iran has paid $7.5 billion in compensation to or for the benefit of U.S. nationals. The Tribunal also has jurisdiction over certain claims between the two governments.

The proposed legislation would prevent the United States from meeting its obligations to pay money to Iran in satisfaction of awards the Tribunal renders against the United States. Instead, the proposed legislation would permit private parties to garnish the funds of the United States Government in order to collect such payments before they reach Iran. Even without this change in the law, there have been efforts in the Flatow case to garnish the payment of a $6 million Tribunal award in Iran's favor.

It is important to understand that allowing private litigants to garnish amounts we owe Iran under Tribunal awards would not discharge our liability to Iran to pay such money. For example, if the efforts in the Flatow case succeed, the Flatow family will receive $6 million, but the United States will still owe Iran $6 million under the unpaid award. And because the awards of the Iran-U.S. Claims Tribunal are enforceable in the courts of any country, Iran can enforce awards against non-immune U.S. property in other countries if we do not pay them voluntarily.

Permitting garnishment of the payment of such awards would thus result in the U.S. taxpayer paying twice: once when a private claimant garnishes the payment, and a second time when Iran enforces the still unsatisfied award against us abroad. Because the judgments against Iran received by these plaintiffs total in the hundreds of millions of dollars, permitting garnishment of debts owed by the United States to Iran as a means of satisfying these judgments could cost the U.S. taxpayer hundreds of millions of dollars.

You should also know that we face other claims by Iran at the Tribunal totaling billions of dollars. We are vigorously contesting these claims. If we are unable to pay awards against us, our position before the Tribunal in these other claims will clearly be undermined.

Eliminating Legal Separateness of Agencies and Instrumentalities

Let me now turn to the provision of the proposed legislation that would change the way the FSIA defines a foreign state's agencies and instrumentalities for terrorism-list countries where there is a terrorism-related judgment against it. This provision would overturn the Congress's own considered judgment when it passed the FSIA in 1976, as well as existing Supreme Court case law and basic principles of corporate and international law. In addition, it would prejudice the interests of U.S. citizens and corporations who invest abroad.

This provision would make corporations that are majority-owned or controlled by a terrorism-list foreign government liable for all of the individual debts of that government. The Congress recognized the danger of this position when it passed the FSIA in 1976. The Conference Report to that bill observed that "If U.S. law did not respect the separate juridical identities of different agencies or instrumentalities, it might encourage foreign jurisdictions to disregard the juridical divisions between different U.S. corporations or between a U.S. corporation and its independent subsidiary."

U.S. citizens and corporations have far more money invested abroad than those of any other country, and thus have more to lose if investment protections such as those provided by the presumption of separate status is eroded. If we saddle the investors of other countries with the debts of foreign governments with which they are co-investors, as the proposed legislation would do, then we can expect U.S. investors to pay a considerably higher price when other governments follow our example.

This hearing has afforded a welcome opportunity to discuss a very important subject involving the fight against terrorism, compensation for victims, and critical national security interests. Unfortunately, however, the concerns raised here today indicate that the 1996 amendment waiving sovereign immunity and creating a judicial cause of action for damages arising from acts terrorism has not met its purposes of providing compensation to victims and deterring terrorism. In fact, if blocked assets were exhausted to compensate the families, which would be the result of this bill, the leverage to affect the conduct of the terrorist-list states would be lost along with the blocked assets. I hasten to add that we are not happy that these suits have not led to recovery for families who have brought cases under the 1996 amendment. A system that has to date left no recovery option other than one that conflicts with U.S. national security interests is not an acceptable system.

We are anxious to work with the Congress to address this difficult problem. Together, we hope to formulate short and longer-term approaches that will address the concerns -- of compensation for terrorist acts and the U.S. national interests and international obligations that we all share -- in a much more satisfactory way. Most important, we believe that for a workable and effective longer-term solution we need a careful and deliberative review of the issues, informed by our experience since the 1996 amendment. We suggest that the Administration and Congress commit to a joint commission to review all aspects of the problem, and to recommend to the President and the Congress proposals to find ways to help these families receive compensation, in a way consistent with our overall national interests and international obligations.

This commission's task would differ from previous commissions such as that established under the 1996 Antiterrorism and Effective Death Penalty Act. The "Commission on the Advancement of Federal Law Enforcement" has 10 specific areas of inquiry in its broad law enforcement charter, with capability to investigate and deter terrorism being only one of them.

We believe that the new commission should be one of stature and with the right expertise to confront all the hard issues we have discussed today -- including the lack of effective remedies in these cases because of sanctions against terrorism-list countries under U.S. law, which are absolutely necessary to maintain. I would like to pursue this idea in more depth with you and your staffs.

A fundamental principle for this joint commission -- by definition -- would be the need to inventory outstanding claims and develop an effective and fair mechanism for compensation of victims of terrorism. We believe it should be encouraged to think broadly, including consideration of avenues other than the judicial one created by the 1996 amendment.

Just as important, the commission should be guided by the principle of preservation of blocking programs and protecting diplomatic property, for the important reasons we have addressed here today. In this light, we would suggest that the commission should present alternatives to statutes that would make blocked assets available for attachment, such as last year's amendments to the FSIA and the recent bill presented for consideration by this committee. Just as critical U.S. interests served by blocking must be preserved, so should the commission consider the likelihood that, under the current scheme, foreign countries will take reciprocal actions against U.S. property abroad – both diplomatic and private.

Once again, we are committed to working together with you to find legislative and non-legislative means for addressing these issues. As one critical part of this effort, we look forward to beginning work on a commission so it can be constituted soon and be charged with making its recommendations within 12 months thereafter.

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DEPARTMENT OF THE TREASURY

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Text as Prepared for Delivery
October 27, 1999

Address by Stuart Eizenstat, Deputy Secretary of the Treasury
Annual Meeting of the Brazil-U.S. Business Council
Washington D.C. October 27, 1999

I am pleased to be with you here today. Your Council plays an important role in promoting Brazilian-U.S. trade and investment. It fosters useful dialogue and greater understanding between our two business sectors and it makes considered policy recommendations to both governments.

I want to speak to you today about Brazil, but I would like to put it in the context of the larger world economic picture. We live in an age of globalization—the unprecedented, rapid flow of private capital, ideas, technology, goods and services around the world. With the coming of computers and the Information Age, the pace of globalization is so fast, and its reach so wide, that at some point early in the next century almost every person on earth will have the ability to communicate any kind of data to almost any other person, instantly and cheaply.

The approach to globalization issues taken by the Administration of President Clinton is based on the belief that market-based economic systems provide the best environment for creating jobs, generating economic activity, and raising living standards, both in our own country and around the world. Perhaps the greatest benefits of globalization over the next generation will come from making possible the safe and sustainable flow of goods, capital and ideas between the developed world and the developing one. The labor force in the United States and Western Europe is aging. All of the world's population growth is going to occur in the developing world. That is where the expanding markets and the manpower will be, and that is where attention must be given now.

To spread the benefits of globalization to all people requires a coordinated effort among the leading industrial nations, by international institutions, and above all by the developing nations themselves. It is vital that they nurture the kind of institutions, and follow the kind of macroeconomic policies that can attract international capital by being safe, attractive places for investment. The policies include enforceable land and contract rights; labor market reform that encourages job creation and entrepreneurship; and policies of privatization that open up opportunities and reduce business costs. The

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institutions that should be nurtured include banking and financial systems that promote productive investment; judicial systems that make foreign investment safer and more predictable; and open accounting and procurement policies which provide a level playing field for all types of investment, foreign and domestic.

The challenge of globalization has special resonance in Brazil. Brazil is one of the leading emerging market economies in the world. It is more than just the economic leader of Latin America. It *is* much of Latin America, with 52 per cent of its land area and 55 per cent of its people. Its Gross Domestic Product of close to $750 billion last year was about 50 per cent of the entire continent. Although foreign trade is a small share of Brazil's economy, the size of that economy means that its neighbors benefit from Brazilian growth. One-third of the exports of Argentina, for example, go to Brazil. Brazil is also central to Mercosur, which has been a major force for regional integration and trade liberalization. With only a few exceptions trade between Brazil and Argentina is now free and rose to nearly $15 billion in 1998.

Brazil is important to the United States. It is our eleventh most important trading partner. Total trade between our two countries was over $23 billion last year, an increase of 68% from five years ago. In that connection, the Administration strongly supports the creation of a Free Trade Association of the Americas, and is working hard in the ongoing negotiations to make concrete progress toward that end.

It used to be said that when the U.S. sneezed, Europe caught a cold. By the same token, events in Brazil are likely to have significance across all of the world's emerging markets. We saw that in events a year ago in the aftermath of the Russian financial collapse and in the period leading up to this year's devaluation. Even those countries that had few direct economic links to Russia and Brazil were affected because capital flows to emerging markets worldwide dried up and lending spreads—the difference between what emerging market borrowers pay and what the U.S. government pays -- widened sharply.

The economic prognosis for Brazil today is far better than what was generally predicted last January, when the government floated the exchange rate after experiencing massive losses in its foreign exchange reserves. Perhaps the severity of the post-devaluation crises in Asian countries conditioned expectations for the worse. Its large foreign and domestic net debt, nearly 43 percent of GDP at the end of 1998 — one-third of which was linked to the exchange rate — created the fear that a sudden rise in interest payments would drain the fiscal accounts. Fairly recent memories of hyperinflation—when the CPI rose over 2,000 per cent a year—contributed to fears that devaluation would lead to disaster. But as your Council pointed out to the Congress, Brazil is not Asia. Its economy is more diverse, its banking sector stronger, its culture not as vulnerable to "crony capitalism." To the credit of the Cardoso government, there has been no depreciation-inflation spiral, no fiscal difficulties in servicing the debt, and no wide scale corporate or financial sector bankruptcies. Consumer price inflation has been about 6% year to date through September, and according to the most recent surveys, expected to be 8% for the year. Short-term interest rates have fallen from 45% in March to 19% today. The central bank is taking steps to see that interest rates to the private sector come down as well. A recent Reuter's survey produced the opinion that the exchange rate is expected to close this year in the 1.90 to 1.95 to the dollar range. While this is a significant depreciation in both nominal and real terms compared to last January, it is far from the collapse feared by many last winter.

Real GDP is expected to decline only marginally this year, far less than the 3-4 per cent contraction that was estimated at the time of devaluation. Latin America in general has had negative growth this year, and – ironically – the decline in Brazil's GDP is not as great as several other countries that did not have currency crises.

The impressive resilience of the Brazilian economy, nine and a half months after moving to a floating exchange rate, is attributable in large part to the response of the Brazilian authorities. Our former Treasury Secretary, Bob Rubin, used to say there is no substitute for credible policy and credible policymakers. The combination of significant fiscal measures, deep privatization, firm monetary policy and strong leadership at the central bank has been critical for these past months.

The challenge ahead is for Brazil to consolidate the return to stability and restore a healthy rate of economic growth. To do this, it needs to move ahead with deeper fiscal and structural measures to ensure a permanent basis for fiscal sustainability. Perhaps the most important step it can take is to press ahead with fiscal reform. Unlike the crisis in a number of Asian countries, Brazil's crisis was more a reflection of public rather than private sector imbalances. Its large fiscal deficits have been a major source of concern to world investors, with foreign investors asking during last year's crisis whether the nation could sustain its public sector debt. In 1998, in the runup to the crisis, Brazil's budgetary balance excluding interest payments was roughly zero. But the growing burden from the high interest needed to defend the *real* generated, in that year, an overall deficit that exceeded 8 per cent of GDP.

The move to a floating exchange rate has not reduced the need for fiscal and structural reform, although the sharp fall in interest rates has provided some needed room. Brazil has also taken firm measures that allowed it to achieve a primary surplus – excluding interest costs – likely to be well over 3% of GDP this year.

But most of the needed fiscal response has come in the form of temporary measures, such as the CPMF financial transactions tax, and higher COFINS tax rate. The challenge ahead is to make progress on longer-term measures, particularly social security reform and the Fiscal Responsibility Act, which limits how much different levels of government in the country can borrow. The imbalances in the social security system have reached nearly 5 per cent of GDP this year and are growing. Social security reform is a very big part of achieving fiscal reform.

Brazil has a strong interest in maintaining an open climate for foreign direct investment. It attracted a remarkable total of $30 billion over the last 12 months, fully financing the current account deficit. Foreign direct investment is vital to the nation. It builds factories, introduces new technology, and supports local employment. Much of its progress in this regard has come about because of the government has unleashed the power and efficiency of the private sector and of foreign investment. The important telecommunications, electricity and petroleum sectors have been opened up to private ownership. To continue this success, the authorities need to maintain a friendly environment by ensuring stable and predictable property rights.

Brazil also needs to assure that the benefits of growth are shared by all its people. Like other countries in the region, Brazil has a high degree of income inequality. The *Real* Plan slashed inflation from over 2000% to just 2% in just 4 years, and made an important contribution to improving the well being of the poor. Brazil has an interest in continuing the fight against income inequality and poverty, and has taken important measures recently to improve its social safety net.

Looking forward, I see many reasons for optimism. Brazil is a large and diverse economy that is rich in natural resources and human capital. The *Real* Plan's success in bringing stability from 1994 to January 1999 is by no means lost. If Brazil stays on the path of reform; we in the U.S. have high expectations. As a prospering economy, a staunch friend of the United States, and the leader of Latin America, it can be a full partner and a major beneficiary of the new economy of the coming century.

Thank you.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR IMMEDIATE RELEASE
Text as Prepared for Delivery
October 28, 1999

UNDER SECRETARY OF THE TREASURY FOR DOMESTIC FINANCE
GARY GENSLER
REMARKS TO THE BOND MARKET ASSOCIATION
1999 ANNUAL LEGAL AND COMPLIANCE CONFERENCE
NEW YORK, NY

I am very pleased to be here today. This is a historic moment for the U.S. financial system. Legislation that will repeal the arcane Depression era Glass-Steagall Act is likely to be voted on by both Houses of Congress in the coming week. For decades, prior Congresses and Administrations have worked to repeal the laws that have separated the banking, securities, and insurance industries. Finally, we are on the brink of success with the newly renamed Gramm-Leach-Bliley Act. Beyond the efforts of these three Chairmen of the Conference Committee, I'd like to recognize the significant leadership and accomplishments of Senator Sarbanes and Representatives LaFalce and Dingell.

As a result of these efforts, we believe that the agreements that have been reached on a bipartisan basis will result in a final bill that is good for the economy and the financial system and good for consumers and communities. While repealing Glass-Steagall is important, the Administration insisted that the bill benefit consumers and communities as well as the financial industry. That's why we were willing to walk away from the bill, even at the eleventh hour, if it did not meet that standard. We believe the final bill will meet that standard. If the language of the bill and the report remain consistent with the agreements that have been reached, the Administration will support enactment of this legislation.

When the Glass-Steagall Act was passed, the financial and economic landscape of our country differed greatly from today. In 1933, banks dominated the financial industry and the economy to an extent that we find difficult to imagine today. Banks had no choice but to hold the mortgages and loans they originated and consumers had little choice as to where to place their savings. In addition, banks served only their local markets.

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Today, there is broad consumer choice. Banks compete for deposits with money market funds and savings products offered by securities firms, asset managers, and insurers. Securitization has changed the way banks manage their assets -- mortgages and other loans are readily put in tradeable form and sold. An $80 trillion dollar derivatives market has revolutionized the way financial firms manage their risks and the products they offer. And today, the markets for financial products are not just national, but truly global in reach. Spurred by competition, innovation, and technology, our financial industry and our economy have been reshaped over the decades since 1933.

To a significant extent, our financial services industry has already modernized itself, even without the final repeal of the Glass-Steagall Act. The industry is preeminent globally. This has been facilitated, in part, by the erosion through judicial and regulatory actions of the walls erected in 1933. Subject to certain limits, banking institutions have been able to offer brokerage services and to engage in securities underwriting through so-called ASection 20" firms.

Benefits of the Bill

The greatest benefit of the bill will be to permit financial services firms to offer banking, securities, and insurance products all within one organization. At its core, the bill pulls down barriers to competition. Allowing financial services firms to offer this wider array of products will give these firms the flexibility to respond to their customers' needs. Financial institutions will be able to expand the banking, securities, and insurance products they offer without artificial structural limitations.

Common ownership of diverse financial services firms will enable these firms to compete using the best that each discipline has to offer. Asset and risk management techniques, funding techniques, technological innovation, product development, and approaches to serving customers and communities are just some of the areas in which significant gains can be made through new business combinations. Particularly in an era of rapidly changing technology, firms will be able to take advantage of greater operating efficiencies.

I believe that this legislation will result in a diversity of approaches to financial services. Just as with any other industry, some companies will be successful at serving their customers by remaining specialized and focusing on particular markets or areas. Others will be successful by offering a broad range of products or by serving many markets. There will not be just one single approach that will be successful. This legislation will ensure that the choices firms make are dictated by the markets and by customers -- not by artificial barriers erected by the government decades ago.

Consumers and Communities

As important as these benefits of financial modernization are, the President insisted that a financial modernization bill must include adequate protections for consumers and must preserve the relevance of the Community Reinvestment Act. As a result of the provisions included on CRA, investor protection, and privacy, we believe the final bill achieves these objectives.

Over the many years of major financial modernization proposals, no major bill ever addressed the issue of consumer privacy. The President took an important step when on May 4 he laid out his principles on protection of individual privacy. The Senate bill, which had already passed, included no privacy provisions. The House then acted by a vote of 427-1 to add privacy to their bill. The final bill goes further, providing significant privacy protections.

For the first time, financial institutions will be required to adopt privacy policies and to disclose these policies to their customers. Financial Institutions will be required to give their customers notice annually on how their personal information is being shared, even amongst affiliates. Consumers will have the right to prevent personal financial information from being shared with third parties, subject to limited exceptions that will permit institutions to continue to operate efficiently. The financial regulatory agencies will have the authority to write and enforce rules to implement these privacy protections. Importantly, this bill will preserve the rights of States to provide even stronger privacy protections. While we believe more can and should be done to give consumers choice before their information is shared with affiliates, the final bill takes an important first step.

We believe that communities also will benefit from the bill. For the first time, a bank's performance under the Community Reinvestment Act will be considered when it expands outside of traditional banking activities. A banking organization will not be able to commence a new activity, directly or indirectly, or to merge with or acquire a company engaged in such activities, unless every insured bank within the organization is serving its communities, as measured by a satisfactory CRA rating.

Under the bill, CRA will continue to apply to all banks without exception, and existing procedures for public comment are preserved. Small banks will have an incentive to achieve better CRA ratings to reduce the frequency of examinations. The final bill includes disclosure provisions related to certain agreements entered into by banks related to CRA. These provisions were improved substantially from the Senate bill and from the initial proposals of the Chairmen of the Conference Committee. It is important that these requirements be implemented in a reasonable manner to ensure that they do not chill the work of those who do so much in our underserved communities. We will work hard in the regulatory process to ensure this result. Community-based organizations are essential to effective implementation of CRA, and to combined growth and opportunity in our communities.

I believe that, taken together, these provisions will ensure that CRA continues to work for all communities.

Organizational Structure

The bill contains important limitations on the financial services firms of the future. We believe that a modern financial system should retain some separation between banking and other financial activities. The alternative, universal banking, is popular around the world, but we believe is the wrong choice for this country at this time. Thus, although the bill allows common ownership of banking, securities, and insurance firms, it still requires those activities to be conducted separately within an organization, subject to functional regulation and funding limits.

At the same time, the bill allows for organizational choice, enabling a financial institution to structure itself and its activities in a manner that best suits its needs, as well as promoting safety and soundness. The provisions of the final bill will preserve an important role for the executive branch with regard to banking policy and the evolution of the financial system of the future.

We believe that when it comes to non-financial firms, even greater separation is appropriate, and that common ownership should be prohibited. One of the lessons of the Asian experience of the past few years is that financial institutions tend to make bad decisions when it comes to lending to corporate owners or siblings. The synergy gains of combining financial and non-financial firms are not great and the potential downside is considerable. Thus, I believe that the United States economy has been well served by preserving a clear separation between those who allocate capital and the majority of those competing for it.

Importantly, the bill would prohibit the transfer of unitary thrifts to non-financial firms. In addition, it sets some important limitations on merchant banking activities in banking institutions. Surely, this is an area where we need to move cautiously, at least until we gain experience with the effects of broader financial firms.

Commodity Exchange Act

As Congress passes this historic legislation this week, we are also embarking on another effort to revise a significant piece of legislation that is in need of updating -- the Commodity Exchange Act.

The President's Working Group on Financial Markets will shortly be reporting on our joint views on over-the-counter derivatives. We will also report on proposed revisions to the Commodity Exchange Act in connection with the upcoming reauthorization of the Commodity Futures Trading Commission. The process represents a unique opportunity to move forward to modernize the legal and regulatory framework for the derivatives markets. There are a number of important principles I would like to mention in that regard.

First, it is critical that we provide legal certainty for OTC derivatives. Legitimate transactions have come under a legal cloud as a result of expansive interpretations of the CEA over the years. Such uncertainty can create systemic risk and must be resolved. Second, we must consider the potential for properly designed, centralized clearing of OTC contracts. This could significantly reduce systemic risk in these markets and contribute to the stability of our financial markets. Third, we must allow for innovation and the emergence of more efficient trading mechanisms in order to ensure that the U.S. remains preeminent in these markets. Fourth, the Working Group also must address other extremely important areas, particularly concerning the Treasury Amendment, which excludes from the CEA transactions in government securities or foreign currency. Lastly, we need to ensure that loopholes do not exist that allow bucket shops and other fraudulent operators to prey on retail customers.

The members of the Working Group are working diligently to achieve a consensus on recommendations that can be sent forward to the Congress. The Working Group has focused on finding resolutions that will ensure the integrity of markets while fostering innovation and competition. These two goals, ensuring market integrity and fostering innovation, need not be competing or incompatible objectives. Innovation and competition are critical to ensuring the integrity of our markets over the long term.

Let me conclude by saying that we have a historic opportunity to prepare for the 21st Century by updating archaic laws from the early 20th Century. It will strengthen our financial sector and promote our economy.

Thank you.

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For Immediate Release
October 28, 1999

Contact: Public Affairs
(202) 622-2960

STATEMENT BY TREASURY SECRETARY LAWRENCE H. SUMMERS

For the past six years as Director of the Bureau of Alcohol, Tobacco and Firearms, John Magaw has spearheaded significant and successful changes for one of the premier law enforcement agencies in the Federal government. Director Magaw's distinguished and versatile law enforcement career of 39 years has proven him to be a stellar leader of great integrity.

Since being named ATF Director in 1993 by former Treasury Secretary Bentsen, Magaw has shaped ATF into a more diversified and efficient organization better suited to confront the challenges of law enforcement including several high-profile investigations such as the bombings of the Murrah Federal Building in Oklahoma, the World Trade Center and the 1996 U.S. Olympics.

Director Magaw's early emphasis on ATF's strategic plan, which became a model for other federal agencies to follow, brought focus to ATF's enforcement efforts. Under Director Magaw's leadership, ATF has received four "Unqualified Audit Opinions" – the highest possible rating for overall performance given by the Treasury Inspector General. He also increased ATF's efforts in training, science and technology, and implemented a restructuring effort that integrated regulatory and law enforcement areas.

In addition to the ATF, Director Magaw also served for the U.S. Secret Service as a Special Agent and numerous executive level positions including head of all protective operations for former President George Bush and later as Director of the Secret Service. Director Magaw leaves behind a tremendous record of service to the Treasury Department and a lasting imprint on Treasury enforcement.

I thank Director Magaw for the esteemed leadership that he has provided to Treasury and wish him well on his retirement from ATF.

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Department of the Treasury
Bureau of Alcohol, Tobacco and Firearms

ATFNEWS

Washington, DC 20226
24 Hour Telephone: (202) 927-8500

FOR IMMEDIATE RELEASE
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FY 00-2

Date: October 28, 1999

DIRECTOR MAGAW ENDS TENURE AT ATF

Director John W. Magaw will be retiring from his post as head of the U.S. Bureau of Alcohol, Tobacco and Firearms (ATF), effective December 31, 1999. His letter of resignation was submitted to the Secretary of the Treasury today.

Director Magaw's law enforcement career began 39 years ago, when he became a trooper with the Ohio State Patrol. In 1967, he became a Special Agent with the U.S. Secret Service, rising through numerous executive-level positions -- including head of all protective operations for former President George Bush -- to Director of the Secret Service, a position he held until October 1993 when he was reassigned to be ATF's director at the request of then-Secretary of the Treasury Lloyd Bensten.

During his tenure at ATF, Director Magaw initiated numerous organizational and policy changes that made ATF a more diversified and efficient law enforcement agency.

Under Director Magaw's leadership, ATF participated in several high-profile investigations, including the Oklahoma City Bombing, the crash of TWA Flight 800, the bombing at the 1996 Olympics, and the National Church Arson Task Force. At the same time, ATF's role in implementing the Brady Law, the Youth Crime Gun Interdiction Initiative, and the work of its National Tracing Center, along with several other programs targeting firearms violations, such as the Integrated Violence Reduction Strategy, have had a direct impact on reducing gun crimes in the United States.

Director Magaw implemented a restructuring of all of ATF that integrated regulatory and law enforcement elements. The restructuring eliminated duplicate reporting structures and fostered closer working relationships. The National Revenue Center in Cincinnati, Ohio, was also established under his leadership, resulting in the consolidation of five ATF technical offices.

Director Magaw took the lead in implementing a comprehensive strategic plan as required by the 1993 Government Performance and Results Act (GPRA). Today, the ATF Strategic Plan is being used as a model in both the public and private sectors. In its 1998 "Report on Managing for Results," the General Accounting Office (GAO) cites ATF as one of the few agencies which has successfully made the critical linkage between performance plans and the agency's budget. In fact, this past spring, under Director Magaw's leadership, ATF received its fourth "Unqualified Audit Opinion" - the highest possible rating given by the Treasury Inspector General, which contracted with the private accounting firm of PricewaterhouseCoopers to do the audits for GPRA compliance.

Increased emphasis on training, science and technology were among the top priorities on Director Magaw's agenda. Under his direction, ATF adopted the seat management approach to computer equipment acquisition. Instead of purchasing computer equipment, ATF now negotiates three-year rental agreements. In addition to being more efficient and economical, this approach provides ATF with better and more frequent access to state-of-the-art computer hardware and software.

Another pioneer program implemented at ATF under Director Magaw's tenure is a two-year initiative by the Department of the Treasury designed to retain current employees and attract new ones with mission-critical skills in the area of science, technology or analysis. Employees who qualify may receive additional salary.

During Magaw's tenure, the ATF K-9 facility in Front Royal, Virginia, was built and the National Tracing Center in Martinsburg, West Virginia, will be moving soon into a larger facility nearby that will have expanded capabilities. Plans also are underway to construct two other facilities, including a new headquarters building in Washington, D.C., and the National Lab and Fire Research Center in Greenbelt, Maryland.

Director Magaw is a graduate of Otterbein College in Westerville, Ohio, and serves on the Board of Trustees. He is also a member of the International Association of Chiefs of Police and serves on the Association's Executive Committee as well as its Advisory Committee for International Policy. He also serves as the Chairperson for the National Law Enforcement Explorers Committee of the Boy Scouts of America.

He is the recipient of numerous other awards and commendations, including Presidential Rank Meritorious Award in 1991 and 1998, and the Presidential Rank Distinguished Award in 1995.

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**STATEMENT OF WILLENE A. JOHNSON
NOMINEE FOR U.S. EXECUTIVE DIRECTOR OF THE
AFRICAN DEVELOPMENT BANK
BEFORE THE SENATE FOREIGN RELATIONS COMMITTEE**

Mr. Chairman, Mr. Ranking Member, and Members of the Committee, I am honored to appear before this Committee as the nominee for the position of United States Executive Director for the African Development Bank Group.

My interest in African economic development began thirty years ago when I served as director of Volunteer Teachers for Africa, a student-run program of Harvard University. My work as a volunteer, teaching dressmaking in rural Kenya, provided me with first-hand experience of the development challenge in Africa.

When I returned to the United States, I became involved in education, first as a teacher of African and African-American culture and then as an active parent. As my interest in Africa deepened, I received a master's degree in African history and later went on to receive a doctorate in economics from Columbia University where my research and dissertation again focused on Africa.

Since 1982, I have enjoyed a career as an economist and central banker at the Federal Reserve Bank of New York. I have worked in various departments at the Federal Reserve Bank, including economic research, foreign exchange, international financial markets, international affairs, and the office of equal employment opportunity. My early research focused on country risk and capital flows to Latin American countries, but I have also worked on European markets and the role of central banks in transition economies. I have lectured on finance and economics in Latin America, Africa, and throughout the United States.

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During the past five years, I have devoted considerable energy to studying, writing, and speaking about Africa. My recent work has dual responsibilities as both the equal employment opportunity officer and as the officer responsible for the Federal Reserve Bank of New York's relationships with African central banks. This work has included developing leadership programs for central bankers both here and abroad. In several State Department sponsored speaking tours in Africa, I have stressed the importance of capacity building and governance as critical underpinnings of economic and financial reform.

During remarks to the World Bank's Development Committee in September, Secretary Summers outlined four pre-requisites for sustainable growth and poverty reduction:

1. Sound and transparent economic management;
2. A policy framework that integrates poverty reduction with growth objectives;
3. Priority attention to human development; and
4. Good governance, including institutions incorporating transparency, accountability, the rule of law, and the participation of civil society.

This strategic vision of sustainable development is one that I share, and I am prepared to implement this strategy with all the skills that I have. The United States has worked diligently to promote the restructuring of the African Development Bank, thereby making the organization better able to provide the institutional support for the implementation of this strategy in the African context. Moreover, the AfDB has stated its intention to play a constructive role in countering corruption in its borrowing countries. In September, the AfDB Board adopted a policy to make governance reforms an essential element in African Development Bank operations throughout the region. Given these ongoing internal reforms and support for regional reform efforts, the AfDB is now better placed to play an active role in eradicating poverty in Africa and to serve as an institution through which the United States can make a significant contribution.

If given the opportunity to serve as the U.S. Executive Director, I would draw on my experiences as a banker, including work supporting the audit committee for the Board of the Federal Reserve Bank of New York, to encourage prudential management and continuing reforms in internal governance at the AfDB. I would also draw on my training as an economist to implement strategies for sustainable growth and poverty alleviation.

Thank you for your attention. I look forward to answering any questions that you might have.

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FOR IMMEDIATE RELEASE
October 29, 1999

Contact: Steve Posner
(202) 622-2960

PRESIDENT CLINTON DESIGNATES JONATHAN TALISMAN TREASURY ACTING ASSISTANT SECRETARY FOR TAX POLICY

President Clinton on Thursday designated Jonathan Talisman as Acting Assistant Secretary for Tax Policy at the Department of the Treasury.

As Acting Assistant Secretary for Tax Policy, Talisman will assist the Treasury Secretary in developing and implementing tax policies and programs; provide the official estimates of all Government receipts for the President's budget, fiscal policy decisions, and Treasury cash management decisions; establish policy criteria reflected in regulations and rulings published in conjunction with the Internal Revenue Service and used in implementing and administering the Internal Revenue Code; negotiate tax treaties for the United States and represent the United States in meetings and work of multilateral organizations dealing with tax policy matters; and provide economic and legal policy analysis for domestic and international tax policy decisions.

Talisman has served since December 1998 as Deputy Assistant Secretary for Tax Policy. In that position, he had supervisory responsibility for all domestic tax issues before the Treasury Department, including legislative proposals and regulatory guidance. He was actively involved in representing and advancing the Administration's position during consideration of various tax bills, including the Taxpayer Relief Act of 1997, the IRS Restructuring and Reform Act of 1998, and the Taxpayer Refund and Relief Act of 1999. Talisman joined the Treasury Department in February 1997 as Tax Legislative Counsel.

Prior to joining the Treasury Department, Talisman served as Minority Chief Tax Counsel for the Senate Finance Committee under Senator Daniel Patrick Moynihan, where he was responsible for developing tax proposals and analyzing all tax-related legislation for the Democratic members of the Finance Committee. Prior to his service at the Finance Committee, he was Legislation Counsel of the Joint Committee on Taxation. Before joining the federal government, Talisman practiced law in Washington, D.C., with the law firm of Akin, Gump, Strauss, Hauer & Feld.

Talisman has a B.S. in accounting from the McIntire School of Commerce at the University of Virginia and a J.D. from the University of Virginia School of Law, where he served as Executive Editor of the *Virginia Tax Review*. He lives in Bethesda, MD with his wife Alisa and children Nick, Max, and Lita.

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October 29, 1999

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CLINTON-GORE ADMINISTRATION COMMENDS HOUSE PASSAGE OF E-COMMERCE RESOLUTION

The Clinton-Gore Administration welcomes the House resolution (H. Con. Res. 190) supporting the Administration's ongoing efforts to obtain a permanent moratorium on the imposition of tariffs on electronic transmissions. This resolution, adopted on October 26, by a vote of 423-1, endorses a long-standing Administration position with respect to electronic transmissions. The Administration successfully achieved in May 1998 an agreement among the 132 WTO countries to establish a temporary moratorium on the imposition of customs duties on electronic transmissions. We are actively seeking an extension of the moratorium at this December's WTO Ministerial Conference, with a view to making the moratorium permanent and binding at the earliest possible date.

The Administration also applauds the goal of the House resolution regarding taxation, which is to keep the Internet and electronic commerce free from special, multiple or discriminatory taxes. The resolution supports the Administration's position that the Internet and electronic commerce should not be subject to any non-neutral or discriminatory taxation. In addition, the Administration has long been on record as strongly opposing any special Internet taxes, and has successfully opposed imposition of one such tax, an international "bit tax" based on information volume.

The Administration commends and appreciates the leadership of Senator Ron Wyden and Representative Christopher Cox in bringing this matter to the attention of Congress and the American people. The Administration looks forward to working with Congress to ensure that the technologies that facilitate the global marketplace are kept free of special, multiple or discriminatory taxes, and other discriminatory measures, which would impede the use of these important commercial, educational and social tools.

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EMBARGOED UNTIL 2:30 P.M.
October 28, 1999

CONTACT: Office of Financing
202/691-3550

TREASURY OFFERS 13-WEEK AND 26-WEEK BILLS

The Treasury will auction two series of Treasury bills totaling approximately $18,000 million to refund $15,671 million of publicly held securities maturing November 4, 1999, and to raise about $2,329 million of new cash.

In addition to the public holdings, Federal Reserve Banks for their own accounts hold $8,343 million of the maturing bills, which may be refunded at the highest discount rate of accepted competitive tenders. Amounts issued to these accounts will be in addition to the offering amount.

The maturing bills held by the public include $2,546 million held by Federal Reserve Banks as agents for foreign and international monetary authorities, which may be refunded within the offering amount at the highest 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.

TreasuryDirect customers requested that we reinvest their maturing holdings of approximately $1,012 million into the 13-week bill and $843 million into the 26-week bill.

This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular for the Sale and Issue of Marketable Book-Entry Treasury Bills, Notes, and Bonds (31 CFR Part 356, as amended).

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

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Attachment

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HIGHLIGHTS OF TREASURY OFFERINGS OF BILLS
TO BE ISSUED NOVEMBER 4, 1999

October 28, 1999

Offering Amount	$10,000 million	$8,000 million
Description of Offering:		
Term and type of security	91-day bill	182-day bill
CUSIP number	912795 DF 5	912795 DU 2
Auction date	November 1, 1999	November 1, 1999
Issue date	November 4, 1999	November 4, 1999
Maturity date	February 3, 2000	May 4, 2000
Original issue date	February 4, 1999	November 4, 1999
Currently outstanding	$27,885 million	---
Minimum bid amount and 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 highest 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 Rate .... 35% of public offering

Maximum Award.................. 35% of public offering

Receipt of Tenders:

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

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

Payment Terms: By charge to a funds account at a Federal Reserve Bank on issue date, or payment of full par amount with tender. *TreasuryDirect* customers can use the Pay Direct feature which authorizes a charge to their account of record at their financial institution on issue date.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
OCTOBER 31, 1999

STATEMENT BY TREASURY DEPUTY SECRETARY STUART EIZENSTAT AMMAN, JORDAN

Today, during meetings with King Abdullah, Prime Minister Rawabdneh, Deputy Prime Minister Khalaf, Finance Minister Marto and Central Bank Governor Fariz, we discussed Jordan's ongoing economic reform efforts and Jordan's bid to join the World Trade Organization. Prior to these meetings, I also met with members of the Jordanian-American Business Association to hear their concerns about the bilateral economic relationship.

The meeting with King Abdullah focused on the King's efforts to invigorate Jordan's economic reform agenda and ways in which we could improve our bilateral trade relationship

I praised King Abdullah for his leadership of Jordan on a wide array of fronts. In particular, I lauded the Government of Jordan for adhering to its 1999 budget deficit targets, even in the face of unanticipated difficulties brought on by the drought, and urged them to stay the course. I pointed to the U.S. experience, that fiscal discipline pays off. It makes possible a "virtuous cycle" where interest rates can be reduced, which spurs private investment and further economic growth.

Jordan's accession to the World Trade Organization is now at a very advanced stage. I am impressed with Jordan's commitment to accelerate reforms and pass relevant legislation for WTO accession. I commend the Government of Jordan for its recent improvement in its WTO accession offer, particularly in financial services. Moreover, the Trade and Investment Framework Agreement (TIFA), signed in May 1999, was an important step in promoting our bilateral trade relationship.

I congratulated the Government of Jordan on the United States Trade Representative's decision to designate three new Qualifying Industrial Zones, Al-Kerek

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Industrial Estate, Ad-Dulayl Park and Al-Tajamouat Industrial City. These three, along with two existing QIZ's (Al-Hasan near Irbid and the Jordan Gateway Project Sheikh Hussein bridge), will help attract investment, create jobs and in some cases aid in the transfer of technology.

I also commended the Government of Jordan for its recent progress on structural reforms, particularly progress on the long-awaited privatization of Jordan Telecommunications Corporation, reorganization of the Aqaba Railway Corporation and plans for restructuring and privatizing Royal Jordanian Airlines.

Finally, we are pleased to support Jordan's structural reform efforts by placing a Resident Debt Advisor with the Ministry of Finance. This Advisor will help Jordan create the most efficient market possible for its domestic government securities by advising on primary issuance of government debt and secondary market structure.

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
November 1, 1999

Contact: Peter Hollenbach
(202) 691-3502

I BONDS TO EARN 6.98 % WHEN BOUGHT FROM NOVEMBER 1999 THROUGH APRIL 2000

I BOND EARNINGS RATE – 6.98%

The earnings rate for I Bonds is a combination of a fixed rate, which will apply for the life of the bond, and the inflation rate. The 6.98 percent earnings rate for I Bonds bought from November 1999 through April 2000 will apply for the first six months after their issue. The earnings rate combines the 3.40 percent fixed rate of return with the 3.52 percent annualized rate of inflation as measured by the Consumer Price Index for all Urban Consumers (CPI-U). The CPI-U increased from 165.0 to 167.9 from March to September 1999, a six-month increase of 1.76 percent.

Treasury's inflation-indexed I Bonds are designed to offer all Americans a way to save that protects the purchasing power of their investment by assuring them a real rate of return over and above inflation. I Bonds have features that make them attractive to many investors. They are sold at face value in denominations of $50, $75, $100, $200, $500, $1,000, $5,000, and $10,000 and earn interest for as long as 30 years. I Bond earnings are added every month and interest is compounded semiannually. They are State and local income tax exempt, and Federal income tax on I Bond earnings can be deferred until the bonds are cashed or they stop earning interest after 30 years. Investors cashing I Bonds before five years are subject to a 3-month earnings penalty.

I BOND FIXED RATE 3.40%

Series I, inflation-indexed savings bonds purchased from November 1999 through April 2000 will earn a 3.4 percent fixed rate of return over and above inflation. The 3.4 percent fixed rate applies for the 30-year life of I Bonds purchased during this six-month period.

EARNINGS RATES FOR ALL I BONDS

Earnings rates and actual yields for I Bonds are shown in the I Bond Earnings Report on the back of this release.

MORE INFORMATION

Get the latest information about I Bonds and Series EE bonds at Public Debt's savings bond website at ***www.savingsbonds.gov*** Download the new Savings Bond Wizard™, version 2.02 a free easy to use program that lets you keep track of all your savings bonds, calculate the value of your portfolio, and more. The latest *United States Savings Bonds/Notes Earnings Report*, containing rate and yield information for Series E, EE and I bonds along with Savings Notes, is also available at the website or by mail. Send a postcard asking for the "Earnings Report" to the Bureau of the Public Debt, 200 Third Street, Parkersburg, WV 26106-1328.

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VALUES AND YIELDS FOR $100 SERIES I BONDS
November 1999 Thru October 2000

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

Series I Bond Issue Dates	Earning Period		Earnings to Date when held 5 years ***				Redemption Value ***	
	Start Date **	End Date **	Start Value	End Value	Current Earnings	Earnings From Issue	Start Value	End Value
11/1999 - 4/2000	11/1/1999	5/1/2000	100.00	103.48	6.96%	6.96%	100.00	101.72
5/1999 - 10/1999	11/1/1999	5/1/2000	102.52	106.04	6.87%	5.95%	101.24	104.28
11/1998 - 4/1999	11/1/1999	5/1/2000	105.12	108.72	6.85%	5.65%	103.80	106.92
9/1998 - 10/1998	3/1/2000	9/1/2000	107.68	111.44	6.98%	5.49%	106.32	109.56

* Monthly increases in value, applicable to some bonds, are not shown in the table.

** Each "Start Date" and "End Date" is for the first date of the range in the "Issue Dates" column. Add one month for each later issue month. For example, a bond issued in 1/2000 would be worth $100.00 on 1/1/2000 and $101.72 on 7/1/2000.

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

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
November 1, 1999

Contact: Peter Hollenbach
(202) 691-3502

BUREAU OF THE PUBLIC DEBT ANNOUNCES SERIES EE SAVINGS BOND RATE FOR NOVEMBER 1999 THROUGH APRIL 2000

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

SERIES EE SAVINGS BOND RATE – 5.19%

The 5.19 percent Series EE savings bond rate is in effect for bonds issued on or after May 1, 1997, that enter semiannual earnings periods from November 1999 through April 2000. The rate is 90 percent of the average 5-year Treasury securities yields for the preceding six months. A new interest rate is announced effective each May 1 and November 1. A 3-month interest penalty is applied to these bonds if redeemed before five years. The Series EE bonds on sale now increase in value monthly. The bond's interest rate is compounded semiannually.

SERIES EE BONDS ISSUED BEFORE MAY 1997

The 4.35 percent Short-Term Series EE savings bond rate is in effect for bonds issued from May 1995 through April 1997 for bonds that enter semiannual earnings periods from November 1999 through April 2000. See the table on the back of this release for earnings on Series EE bonds issued from January 1980.

MATURED SERIES E SAVINGS BONDS AND SAVINGS NOTES

Series E savings bonds and Savings Notes continue to reach final maturity and stop earning interest. Bonds issued from May 1941 through October 1959 along with those issued from December 1965 through October 1969, have stopped earning interest. Savings Notes, issued from May 1967 through October 1969, have stopped earning interest. Bonds and Notes with issue dates shown here will reach final maturity in the next six months.

Bond/Note Issue Dates	Bonds /Notes Stop Earning Interest
November 1959 through April 1960	November 1999 through April 2000
November 1969 through April 1970	November 1999 through April 2000

MORE INFORMATION

The latest *United States Savings Bonds/Notes Earnings Report* and other useful information about savings bonds is available at Public Debt's Internet website at ***www.savingsbonds.gov***. Download the new Savings Bond Wizard ™ version 2.02 an easy to use program that lets you keep track of all your savings bonds, calculate the value of your portfolio, and more. The table on the back of this release shows actual yields for Series EE bonds. The Earnings Report, which contains rate and yield information for Series E&EE bonds and Savings Notes, is also available by mail from Public Debt. Send a postcard asking for "Earnings Report" to Bureau of the Public Debt, 200 Third Street, Parkersburg, WV 26106-1328.

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VALUES AND YIELDS FOR $100 SERIES EE BONDS
November 1999 Thru October 2000

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

Series EE Bond Issue Dates	Earning Period		Earnings to Date when held 5 years ***				Redemption Value ***	
	Start Date **	End Date **	Start Value	End Value	Current Earnings	Earnings From Issue	Start Value	End Value
11/1999 - 4/2000	11/1/1999	5/1/2000	50.00	51.28	5.12%	5.12%	50.00	50.64
5/1999 - 10/1999	11/1/1999	5/1/2000	51.08	52.40	5.17%	4.74%	50.52	51.72
11/1998 - 4/1999	11/1/1999	5/1/2000	52.28	53.64	5.20%	4.74%	51.72	52.96
5/1998 - 10/1998	11/1/1999	5/1/2000	53.56	54.96	5.23%	4.79%	53.00	54.24
11/1997 - 4/1998	11/1/1999	5/1/2000	55.08	56.52	5.23%	4.96%	54.48	55.80
5/1997 - 10/1997	11/1/1999	5/1/2000	56.64	58.12	5.23%	5.08%	56.04	57.36

Series EE Bond Issue Dates	Earning Period				Current Earnings	Earnings from Issue
	Start Date **	End Date **	Start Value	End Value		
11/1996 - 4/1997	11/1/1999	5/1/2000	56.92	58.16	4.36%	4.37%
5/1996 - 10/1996	11/1/1999	5/1/2000	58.12	59.40	4.40%	4.35%
11/1995 - 4/1996	11/1/1999	5/1/2000	59.56	60.84	4.30%	4.41%
5/1995 - 10/1995	11/1/1999	5/1/2000	61.08	62.40	4.32%	4.48%
11/1994 - 4/1995	11/1/1999	5/1/2000	64.52	66.12	4.96%	5.15%
5/1994 - 10/1994	11/1/1999	5/1/2000	66.04	67.64	4.85%	5.10%
11/1993 - 4/1994	11/1/1999	5/1/2000	67.48	69.12	4.86%	5.04%
5/1993 - 10/1993	11/1/1999	5/1/2000	69.08	70.76	4.86%	5.02%
3/1993 - 4/1993	3/1/2000	9/1/2000	70.80	72.56	4.97%	5.03%
11/1992 - 2/1993	11/1/1999	5/1/2000	75.64	77.92	6.03%	6.00%
5/1992 - 10/1992	11/1/1999	5/1/2000	77.92	80.24	5.95%	6.00%
11/1991 - 4/1992	11/1/1999	5/1/2000	80.24	82.68	6.08%	6.01%
5/1991 - 10/1991	11/1/1999	5/1/2000	82.68	85.16	6.00%	6.01%
11/1990 - 4/1991	11/1/1999	5/1/2000	85.16	87.68	5.92%	6.00%
5/1990 - 10/1990	11/1/1999	5/1/2000	87.68	90.32	6.02%	6.00%
11/1989 - 4/1990	11/1/1999	5/1/2000	90.32	93.04	6.02%	6.00%
5/1989 - 10/1989	11/1/1999	5/1/2000	93.04	95.84	6.02%	6.00%
11/1988 - 4/1989	11/1/1999	5/1/2000	95.84	98.68	5.93%	6.00%
5/1988 - 10/1988	11/1/1999	5/1/2000	98.68	101.64	6.00%	6.00%
11/1987 - 4/1988	11/1/1999	5/1/2000	101.64	103.68	4.01%	5.92%
5/1987 - 10/1987	11/1/1999	5/1/2000	103.68	105.76	4.01%	5.85%
11/1986 - 4/1987	11/1/1999	5/1/2000	105.76	107.92	4.08%	5.78%
5/1986 - 10/1986	11/1/1999	5/1/2000	120.00	122.40	4.00%	6.50%
11/1985 - 4/1986	11/1/1999	5/1/2000	122.40	124.84	3.99%	6.41%
5/1985 - 10/1985	11/1/1999	5/1/2000	124.84	127.32	3.97%	6.33%
11/1984 - 4/1985	11/1/1999	5/1/2000	127.32	129.88	4.02%	6.25%
5/1984 - 10/1984	11/1/1999	5/1/2000	131.76	135.12	5.10%	6.31%
11/1983 - 4/1984	11/1/1999	5/1/2000	138.08	141.40	4.81%	6.40%
5/1983 - 10/1983	11/1/1999	5/1/2000	144.16	147.64	4.83%	6.47%
3/1983 - 4/1983	3/1/2000	9/1/2000	152.04	155.80	4.95%	6.60%
11/1982 - 2/1983	11/1/1999	5/1/2000	158.00	162.72	5.97%	6.86%
5/1982 - 10/1982	11/1/1999	5/1/2000	177.32	182.64	6.00%	7.33%
11/1981 - 4/1982	11/1/1999	5/1/2000	182.64	186.32	4.03%	7.24%
5/1981 - 10/1981	11/1/1999	5/1/2000	186.32	190.04	3.99%	7.15%
11/1980 - 4/1981	11/1/1999	5/1/2000	198.48	202.48	4.03%	7.30%
5/1980 - 10/1980	11/1/1999	5/1/2000	214.48	220.92	6.01%	7.57%
1/1980 - 4/1980	1/1/2000	7/1/2000	218.76	225.32	6.00%	7.48%

* Monthly increases in value, applicable to some bonds, are not shown in the table.

** Each "Start Date" and "End Date" is for the first date of the range in the "Issue Dates" column. Add one month for each later issue month. For example, a bond issued in 1/1986 would be worth $122.40 on 1/1/2000 and $124.84 on 7/1/2000.

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

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED UNTIL 3:00PM
November 1, 1999

Contact: Bill Buck
(202) 622-2960

TREASURY ANNOUNCES MARKET BORROWING ESTIMATES

The Treasury Department announced on Monday that net market borrowing for the October - December 1999 quarter is estimated to be $51 billion with a cash balance of $70 billion on December 31, 1999. The Treasury Department also announced that net market borrowing for the January - March 2000 quarter will be a paydown of $12 billion with a cash balance of $20 billion on March 31.

In the quarterly announcement of its borrowing needs on August 2, 1999, the Treasury Department estimated net market borrowing for the October - December quarter to be $65 billion with a cash balance of $80 billion on December 31, 1999. Current estimates reflect a higher opening cash balance, lower net issues of State and Local Series securities than previously estimated, and a lower target balance on December 31.

Actual net market borrowing for the July - September 1999 quarter was a paydown of $15.9 billion with a cash balance of $56.5 billion on September 30. On August 2, the Treasury Department announced its current estimate of net market borrowing to be a paydown of $11 billion with a cash balance of $45 billion on September 30. The increase in the paydown was the result of lower outlays than estimated.

The Quarterly Refunding Press Conference will be held at 9:00AM on Wednesday, November 3, 1999.

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DEPARTMENT OF THE TREASURY

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FOR IMMEDIATE RELEASE
November 1, 1999

Contact: Bill Buck
(202) 622-2960

SECRETARY SUMMERS TO LAUNCH INTERNET SAVINGS BOND SITE

Treasury Secretary Lawrence H. Summers will witness the first on-line purchase of an U.S. Savings Bond as he unveils the new Savings Bond Internet site at 10:30 a.m., Tuesday, November 2, in the Treasury's Diplomatic Reception Room (Room 3327).

The site, The Savings Bond Connection, will allow people to conveniently purchase U.S. Savings Bonds 24 hours a day, 7 days a week, from home with a credit card. This is part of the Clinton's Administration's ongoing commitment to make it easier for Americans to save and invest.

Reporters without Treasury, White House, State Department, Congressional, Justice or Defense credentials should call (202) 622-2960 with their name, date of birth, social security number and news organization to be cleared in to enter the building. All reporters should enter the Treasury Department from the 15th Street entrance at 1500 Pennsylvania Avenue.

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DEPARTMENT OF THE TREASURY

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

FOR IMMEDIATE RELEASE
November 1, 1999

Office of Public Affairs
(202) 622-2960

MEDIA ADVISORY
(PHOTO-OP)

TREASURY TO UNVEIL REDESIGNED $5 AND $10 CURRENCY NOTES

Treasury Secretary Lawrence H. Summers, Treasurer Mary Ellen Withrow and Secret Service Director Brian L. Stafford will unveil the redesigned $5 and $10 notes on Tuesday, November 16 in continuance of the Government's efforts to deter counterfeiting of U.S. currency in circulation. The unveiling ceremony will be held at 10 a.m. in Treasury's Diplomatic Reception Room (Room 3311).

In addition, three retail employees will be honored for having successfully detected counterfeit notes at work using the new security features. They will each receive a certificate for "Exceptional Public Service" signed by Secretary Summers.

Officials from the Treasury Department, Federal Reserve, United States Secret Service and the Bureau of Engraving and Printing will be available to answer questions regarding the new notes.

Reporters without Treasury, White House, State, Congressional or Defense credentials should call (202) 622-2960 with name, date of birth, social security number and news organization for clearance. Clearance information may also be faxed to (202) 622-1999.

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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
November 01, 1999

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Term:	91-Day Bill
Issue Date:	November 04, 1999
Maturity Date:	February 03, 2000
CUSIP Number:	912795DF5

High Rate: 4.995% Investment Rate 1/: 5.145% Price: 98.737

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 47%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 26,272,771	$ 8,253,771
Noncompetitive	1,405,279	1,405,279
PUBLIC SUBTOTAL	27,678,050	9,659,050 2/
Foreign Official Refunded	348,563	348,563
SUBTOTAL	28,026,613	10,007,613
Federal Reserve	4,383,010	4,383,010
Foreign Official Add-On	181,437	181,437
TOTAL	$ 32,591,060	$ 14,572,060

Median rate 4.985%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 4.900%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 27,678,050 / 9,659,050 = 2.87

1/ Equivalent coupon-issue yield.
2/ Awards to TREASURY DIRECT = $1,101,535,000

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
November 01, 1999

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Term:	182-Day Bill
Issue Date:	November 04, 1999
Maturity Date:	May 04, 2000
CUSIP Number:	912795DU2

High Rate: 5.090% Investment Rate 1/: 5.311% Price: 97.427

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 71%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 23,248,350	$ 4,761,157
Noncompetitive	1,171,156	1,171,156
PUBLIC SUBTOTAL	24,419,506	5,932,313 2/
Foreign Official Refunded	2,087,237	2,087,237
SUBTOTAL	26,506,743	8,019,550
Federal Reserve	3,960,000	3,960,000
Foreign Official Add-On	1,086,763	1,086,763
TOTAL	$ 31,553,506	$ 13,066,313

Median rate 5.080%: 50% of the amount of accepted competitive tenders as tendered at or below that rate. Low rate 5.000%: 5% of the amount f accepted competitive tenders was tendered at or below that rate.

id-to-Cover Ratio = 24,419,506 / 5,932,313 = 4.12

/ Equivalent coupon-issue yield.
/ Awards to TREASURY DIRECT = $902,279,000

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR IMMEDIATE RELEASE
Text as Prepared for Delivery
November 2, 1999

DIRECTOR OF THE OFFICE OF MACROECONOMIC ANALYSIS JOHN H. AUTEN REMARKS TO THE TREASURY BORROWING ADVISORY COMMITTEE OF THE BOND MARKET ASSOCIATION

When you were here three months ago, real growth had fallen below 2 percent annual rate in the second quarter. It was unclear at the time whether this was a temporary development, or an early signal of a downshift to a slower pace of growth going forward. Last week's advance Gross Domestic Product report settled that issue, at least for the third quarter, with real growth rebounding close to 5 percent. It still leaves unanswered the question of whether growth is likely to continue at such an elevated pace, or whether it will begin to move down toward the economy's longer-term growth potential.

The other major domestic economic development in the past three months had been the apparent intensification of concern over the threat of rising inflation. While the broad inflation measures in the Gross Domestic Product accounts were surprisingly well behaved in the third quarter, there have been some relatively high inflation readings recently from the monthly producer and consumer price indexes. The key question here was the extent to which the bulge in these indexes could safely be attributed to special factors, or whether it might be a signal of a more general increase of inflationary pressures. Recent data releases seem to have reduced, although perhaps not entirely removed, those concerns.

Turning first to the issue of economic growth, last week's Gross Domestic Product results also included a comprehensive benchmark revision of the national income and product accounts, a regular occurrence every 4 to 5 years which in this case changes results from 1959 through the second quarter of 1999. There has been insufficient time to examine the full implications of these revisions to the national accounts with the close attention that they deserve. The changes will undoubtedly prove to be important in

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appraising longer-term historical developments, and certainly they represent a commendable effort by the Commerce Department's Bureau of Economic Analysis to improve and modernize its accounts in order to keep pace with the ever-changing U.S. economy. But it seems questionable whether such data revisions have much immediate practical significance for us today in tracking the short-term behavior of the economy.

On the revised basis, real growth jumped from 1.9 percent annual rate in the second quarter to 4.8 percent in the third. But, domestic final demand only edged up from a 4.7 percent annual rate increase in the second quarter to 4.9 percent in the third. Consumer spending actually slowed a little from 5.1 percent in the second quarter to 4.3 percent in the third quarter. These are hardly significant changes and do not suggest any clear slowdown in consumer spending. But they do highlight the fact that higher growth in the third quarter was mainly accounted for by a turnaround in inventory investment. In the second quarter, inventory investment had dropped sharply, leaving inventory levels very low in relation to sales, and the third quarter seems to have been a period of voluntary inventory buildup -- one of replenishment. Aside from the inventory swing, the second and third quarters were fairly similar periods of strong final demand.

There are a few scattered signs currently that the economy may be shifting toward a more moderate pace of growth, but nothing that could yet be regarded as decisive. Consumer confidence seems to be slipping from its peak levels, although still remaining high. Largely anecdotal reports suggest that retail sales may have cooled a little. Residential construction is hobbled by shortages of construction labor and home sales have softened. Special explanations can be found for most of these possibly transient signs of weakness and the economy seems to be rolling along currently at generally undiminished speed.

The fourth quarter is regarded by many forecasters as likely to feature even more inventory buildup, as many businesses and perhaps even some consumers begin to practice a "just in case" inventory policy in advance of the Y2K transition into the new millennium. That may introduce some modification of the quarterly path. For example, the Blue Chip consensus forecast in early October from about fifty economists at major businesses, financial institutions and academic research organizations, was carrying a 3.8 percent real growth estimate for the fourth quarter and 2.0 percent for the first quarter of next year as precautionary inventory building ran its course. For the four quarters of next year, real growth was expected to average 2.6 percent, probably not far from many current estimates of the economy's trend rate of growth potential.

Inflation, or perhaps one should say its comparative absence, remains the major puzzle in the current situation.

- Broad measures of inflation in the national accounts remained well behaved in the third quarter. The GDP chain weight price index (which captures only prices for goods and services produced in the U.S.) rose at a 1.0 percent annual rate, down from 1.3 percent in the second quarter. The price index for gross domestic purchases (which reflects only prices paid by U.S. residents) moved up by 1.6 percent at an annual rate in the third quarter following a 1.9 percent rise in the second. An upturn in the price of imported oil is primarily responsible for the higher -- but still low -- rates of inflation on this basis.

- The employment cost index (ECI) continues to defy the conventional expectation of an accelerating pattern in a period of such tight labor markets. During the three months ended September, the index rose by 0.8 percent. Growth over the twelve months ended September comes to only 3.1 percent -- a slowdown of 0.6 percentage point from 3.7 percent during the comparable year-ago period. The slowdown has been centered in wages and salaries, which grew by 3.3 percent during the latest twelve months compared to 4.0 percent a year earlier. Growth of benefit costs accelerated narrowly from 2.6 percent to 2.7 percent.

- In sharp, and at the time somewhat disturbing, contrast, producer and consumer price indexes for September rose rather abruptly. The 1.1 percent increase in producer prices was a nine-year high. Excluding aberrant jumps in cigarette and passenger car prices, the core PPI index would, however, have risen only 0.1 percent. Even without this deconstruction approach, the core PPI is up this year at only a 0.6 percent annual rate. The CPI core index was up 0.3 percent in September but roughly two-thirds of that increase was due to higher prices for cigarettes and apparel, believed to be temporary.

The economy continues to roll along with few clear signs of difficulty ahead and a remarkably quiescent inflation situation. 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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EMBARGO TIME WILL BE SET
November 3, 1999

UNDER SECRETARY OF THE TREASURY FOR DOMESTIC FINANCE
GARY GENSLER
REMARKS AT THE NOVEMBER 1999 TREASURY QUARTERLY REFUNDING

Good morning. I am pleased to be with you today to discuss the government's refunding needs for the current quarter. As we announced last Wednesday, Fiscal Year 1999 resulted in the largest budget surplus in our nation's history. The FY 1999 surplus of $123 billion caps seven consecutive years of improvement in our budget results since the deficit peaked at $290 billion in FY 1992. In addition to two record-breaking budget surpluses in a row, we also have again achieved the largest ever pay-down of publicly held debt. In FY 1999, we reduced debt held by the public by $88 billion, following on a paydown of $51 billion in FY 1998. The result has been that our publicly held debt is taking up an ever smaller share of our nation's debt markets. Moreover, interest payments on our publicly held debt, which had been projected in 1993 to grow to $321 billion for FY 1999, have been held to $235 billion for the year. The Clinton Administration's policy of fiscal discipline has been critical to achieving this success.

Debt Buy-backs

In August, we announced proposed rules that would allow us to buy back Treasury securities prior to maturity. We received constructive input on the proposed rule during the comment period, which is now closed. This week, we had the opportunity to discuss the proposal and comments with Treasury's Borrowing Advisory Committee. The Committee has provided valuable comments as to how Treasury could best conduct any buy-back operations. We plan to move forward on the rule and expect to have a final rule in place by January. While Treasury has not yet determined whether it will, in fact, conduct debt buy-backs, adoption of a final rule will make buy-backs an actual debt management tool for Treasury.

Reopenings

Today, I would like to announce another important initiative that will improve our debt management capabilities. Today the Treasury is issuing a temporary rule that will allow Treasury to reopen its benchmark securities within one year of issuance without creating concerns under the original issue discount (OID) rules. This rule will permit Treasury to reopen its benchmark securities on a more regular basis. The increased flexibility to conduct such reopenings will promote greater liquidity and efficiency in the markets for Treasury securities.

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Until now, Treasury has been constrained in its ability to reopen its benchmark securities issuances by the OID rules. Under the existing rules, Treasury generally can reopen an issue only if the price of the issue has not fallen by more than a de minimus amount. This de minimus standard was of particular concern for issues with shorter maturities. In addition, the existing rule constrained Treasury in that the de minimus price change is measured as of the date of the auction, rather than as of the announcement date. The rule change we are announcing today will eliminate the uncertainty under the OID rule arising from potential price movements between announcement and auction dates.

This rule change will provide us with greater flexibility in reopening issues of Treasury securities. In particular, this will allow us to promote liquidity in our benchmark securities issues. Together with the ability to conduct debt buy-backs, this will give the Treasury two additional tools to manage the nation's debt in an era of budget surpluses.

The temporary rule will be published Friday in the Federal Register and will be effective immediately. At the same time, Treasury is publishing a request for comment on a similar rule for issuers other than the Treasury.

Terms of the November Refunding

I will now turn to the terms of the quarterly refunding. We are offering $25 billion of notes to refund $29.3 billion of privately held notes maturing on November 15, paying down approximately $4.3 billion.

The securities are:
1) A 5-year note in the amount of $15 billion, maturing on November 15, 2004; and
2) A reopening of the 6% note of August 15, 2009, in the amount of $10 billion.

These notes are scheduled to be auctioned on a yield basis at 1:00 p.m. Eastern time on Tuesday, November 9 and Wednesday, November 10, respectively.

As announced on Monday, November 1, we estimate that net market borrowing for the October-December quarter will be $51 billion. This estimate assumes a $70 billion cash balance on December 31. The Treasury also announced that net market borrowing for the January-March quarter will be a paydown of approximately $12 billion with a cash balance of $20 billion on March 31.

As we announced in August, we are planning for a larger than usual year end cash balance as part of our planning related to the Year 2000. We have reduced our targeted balances from the $80 billion announced last quarter to $70 billion as a result of the additional information now available as to the timing of our year end receipts and outlays. As we announced in August, we continue to stand ready to meet our obligations under the borrowing facility established for the National Credit Union Administration. We do not anticipate any problems, but we continue to be prepared to deal with any needs that may arise. All major Treasury financial systems, including those used to collect taxes, disburse payments, and auction marketable securities are Y2K ready. The Federal Reserve has also indicated that its systems supporting Treasury programs are Y2K ready.

The additional funding in the fourth quarter will be done primarily through cash management bills. We expect to issue two cash management bills this quarter, one in mid-November and another in early December. Both will mature in mid-January.

The next quarterly refunding press conference will be held on February 2, 2000.

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NET MARKET BORROWING

October-December 1999

(Billions of dollars)

TOTAL		**50.7**
DONE *		**-23.0**
BILLS		
Regular weekly bills	13.3	
52- week bill	0.1	
Total	13.4	
COUPONS		
7- year note	-10.3	
2- year notes	0.7	
5- year notes - end of month	-31.9	
30- year inflation-indexed bond	7.4	
November refunding	-2.3	
	-36.4	
TO BE DONE		**73.7**

* Issued or announced through November 3, 1999.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR IMMEDIATE RELEASE
November 2, 1999

Contact: Bill Buck
(202) 622-2920

SAVINGS BONDS NOW AVAILABLE FOR ON-LINE PURCHASE

Treasury Secretary Lawrence H. Summers today unveiled the Savings Bond Connection, an on-line location for purchasing U.S. Savings Bonds over the Internet 24 hours a day, 7 days a week.

"Americans have relied on Savings Bonds for decades as an important tool in their efforts to save for their future," Secretary Summers said. "By bringing Savings Bonds as close as your home computer, this program makes it more convenient for millions of Americans to add to their savings."

Designed for the convenient purchases of savings bonds, the website offers secure on-line purchases of Series EE and new Series I (inflation-indexed) bonds with either a MasterCard or Visa. It takes about five minutes to buy a bond at www.savingsbonds.gov. After entering ownership information for the bond, a credit card number and e-mail contact information, buyers get a confirmation of purchase. Bonds are delivered, by mail, in about one week. In the case of last minute gift purchases, a gift certificate can be downloaded.

Most purchasers will use the Secure Sockets Layer (SSL), the current encryption standard for Internet commerce. Secure Electronic Transaction (SET) technology is also available for those customers doing business with banks who issue SET certificates.

The Savings Bond Connection on the Bureau of the Public Debt's website was developed in a joint effort with MasterCard International, Mellon Financial Corporation, IBM Corporation and the Treasury Department's Financial Management Service.

Purchasers must have Internet browsers equivalent to Netscape 3.0 or better or Microsoft Internet Explorer 4.0 or higher.

The new Series I inflation-indexed savings bonds along with Series EE bonds are available in the most popular denominations: $50, $75, $100, $200 and $500 ($1,000 for Series EE bonds). There is a $500 issue price limit for individual orders.

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DEPARTMENT OF THE TREASURY

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'OR RELEASE WHEN AUTHORIZED AT PRESS CONFERENCE 'ovember 3, 1999

CONTACT: Office of Financing 202/691-3550

TREASURY NOVEMBER QUARTERLY FINANCING

The Treasury will auction $15,000 million of 5-year notes and $10,000 illion of 9-3/4-year 6% notes to refund $29,319 million of publicly held ecurities maturing November 15, 1999, and to pay down about $4,319 million.

In addition to the public holdings, Federal Reserve Banks hold $4,325 illion of the maturing securities for their own accounts, which may be efunded by issuing additional amounts of the new securities.

The maturing securities held by the public include $4,042 million held y Federal Reserve Banks as agents for foreign and international monetary ıthorities. Amounts bid for these accounts by Federal Reserve Banks will ə added to the offering.

TreasuryDirect customers requested that we reinvest their maturing oldings of approximately $164 million into the 5-year note and $9 million ıto the 9-3/4-year note.

Both of the auctions being announced today will be conducted in the .ngle-price auction format. All competitive and noncompetitive awards .ll be at the highest yield of accepted competitive tenders.

The notes being offered today are eligible for the STRIPS program.

This offering of Treasury securities is governed by the terms and con- .tions set forth in the Uniform Offering Circular for the Sale and Issue of .rketable Book-Entry Treasury Bills, Notes, and Bonds (31 CFR Part 356, as ıended).

Details about the notes are given in the attached offering highlights.

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HIGHLIGHTS OF TREASURY OFFERINGS TO THE PUBLIC
NOVEMBER 1999 QUARTERLY FINANCING

November 3, 1999

<u>Offering Amount</u>	$15,000 million	$10,000 million
<u>Description of Offering</u>:		
Term and type of security	5-year notes	9-3/4-year notes (reopening)
Series	H-2004	C-2009
CUSIP number	912827 5S 7	912827 5N 8
Auction date	November 9, 1999	November 10, 1999
Issue date	November 15, 1999	November 15, 1999
Dated date	November 15, 1999	August 15, 1999
Maturity date	November 15, 2004	August 15, 2009
Interest rate	Determined based on the highest accepted competitive bid	6%
Yield	Determined at auction	Determined at auction
Interest payment dates	May 15 and November 15	February 15 and August 15
Minimum bid amount and multiples	$1,000	$1,000
Accrued interest payable by investor	None	$15.00000 per $1,000 (from August 15 to November 15, 1999)
Premium or discount	Determined at auction	Determined at auction
<u>STRIPS Information</u>:		
Minimum amount required	Determined at auction	$100,000
Corpus CUSIP number	912820 EE 3	912820 EA 1
Due date(s) and CUSIP number(s) for additional TINT(s)	Not applicable	Not applicable

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

<u>Submission of Bids</u>:

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

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

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

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

<u>Receipt of Tenders</u>:

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

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

<u>Payment Terms</u> ....By charge to a funds account at a Federal Reserve Bank on issue date, or payment of full par amount with tender. *TreasuryDirect* customers can use the Pay Direct feature which authorizes a charge to their account of record at their financial institution on issue date.

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Weekly Release of U.S. Reserve Assets

November 3, 1999

The Treasury Department today released U.S. reserve assets data for the week ending October 29, 1999.

As this table indicates, U.S. reserve assets totaled $73,209 million as of October 29, 1999, down from $73,775 million as of October 15, 1999.

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

1999 Week Ending	Total Reserve Assets	Gold Stock 1/	Special Drawing Rights 2/	Foreign Currencies 3/ ESF	Foreign Currencies 3/ SOMA	Reserve Position in IMF 2/
October 22, 1999	**73,775**	11,046	10,290	16,338	16,341	19,759
October 29, 1999	**73,209**	11,046	*10,232*	16,187	16,190	*19,554*

1/ Gold stock is valued monthly at $42.2222 per fine troy ounce. Values shown are as of August 31, 1999. The July 31, 1999 value was $11,048 million.

2/ SDR holdings and the reserve position in the IMF are based on IMF data and valued in dollar terms at the official SDR/dollar exchange rate. Consistent with current reporting practices, IMF data for October 22, 1999 are final. Data for SDR holdings and the reserve position in the IMF shown as of October 29, 1999 (in italics) reflect preliminary adjustments by the Treasury to the October 22, 1999 IMF data.

3/ Includes holdings of the Treasury's Exchange Stabilization Fund (ESF) and the Federal Reserve's System Open Market Account (SOMA). These holdings are valued at current market exchange rates or, where appropriate, at such other rates as may be agreed upon by the parties to the transactions.

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FOR IMMEDIATE RELEASE
November 3, 1999

Contact: Bill Buck
(202) 622-2960

TREASURY'S WEEKLY BILL ANNOUNCEMENT HOLIDAY SCHEDULE

Since the Veterans' Day holiday falls on Thursday this year, Treasury will release its weekly bill announcement on Wednesday, November 10 at 2:30 p.m., instead of Thursday, November 11.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR IMMEDIATE RELEASE
November 4, 1999

STATEMENT BY TREASURY SECRETARY LAWRENCE H. SUMMERS

We applaud last night's approval by the House Banking Committee of priority legislation to provide debt relief to millions of people in the world's poorest countries. The Committee's bipartisan action is an important step forward toward making the historic international initiative for Highly Indebted Poor Countries a reality in the Jubilee year. In the days ahead, we look forward to continuing this urgent work with the Congress in the final budget discussions now underway.

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FOR IMMEDIATE RELEASE
November 4, 1999

Contact: John Longbrake
(202) 622-2960

TREASURY RELEASES U.S. FISCAL TRANSPARENCY QUESTIONNAIRE AND SELF-EVALUATION REPORT

The Treasury Department on Thursday made available on its web site the United States' response to the IMF's Questionnaire on Fiscal Transparency and Self-Evaluation Report on Fiscal Transparency, at (www.treas.gov/press/releases).

The IMF questionnaire was developed to help countries assess how their fiscal management systems compare with the requirements of the code. The self-evaluation report was designed to highlight the strengths and weaknesses of these systems. Treasury is releasing the United States' response in an effort to promote widespread implementation of the IMF's *Code of Good Practices on Fiscal Transparency - Declaration on Principles*. Treasury also anticipates the transparency standards will become an integral part of the IMF's "Article IV" surveillance process.

The IMF's increased focus on promoting fiscal transparency is a response to an emerging consensus that fiscal transparency is a critical part of good governance. Greater transparency is expected to help markets better adjust to economic developments, minimize contagion and reduce volatility. The IMF's *Code of Good Practices on Fiscal Transparency Declaration on Principles* was approved by the Executive Board and endorsed by the Interim Committee in 1998 (publicly available on the IMF web site).

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ƆUBLIC DEBT NEWS

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

FOR RELEASE AT 3:00 PM
November 4, 1999

Contact: Peter Hollenbach
(202) 691-3502

PUBLIC DEBT ANNOUNCES ACTIVITY FOR SECURITIES IN THE STRIPS PROGRAM FOR OCTOBER 1999

The Bureau of the Public Debt announced activity figures for the month of October 1999, of securities within the Separate Trading of Registered Interest and Principal of Securities program (STRIPS).

Dollar Amounts in Thousands

Principal Outstanding (Eligible Securities)	$1,864,704,634
Held in Unstripped Form	$1,647,368,864
Held in Stripped Form	$217,335,770
Reconstituted in October	$9,156,829

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 V of the Monthly Statement of the Public Debt, entitled "Holdings of Treasury Securities in Stripped Form."

The Strips Table 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 Public Debt and Treasury Securities is also available on the homepage.

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TABLE IV - STATEMENT OF GUARANTEED DEBT OF U.S. AGENCIES, OCTOBER 31, 1999

[Compiled from latest reports received by Treasury]

TABLE V - HOLDINGS OF TREASURY SECURITIES IN STRIPPED FORM, OCTOBER 31, 1999

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	4,421,806	3,880,000	0
DQ8		12	AD5	05/15/05	4,260,758	1,834,758	2,426,000	17,200
DR6		10-3/4	AG8	08/15/05	9,269,713	5,593,713	3,676,000	12,800
DU9		9-3/8	AJ2	02/15/06	4,755,916	4,747,980	7,936	0
DN5		11-3/4	912800 AA7	11/15/14	6,005,584	2,432,784	3,572,800	218,400
DP0		11-1/4	912803 AA1	02/15/15	12,667,799	9,936,599	2,731,200	206,400
DS4		10-5/8	AC7	08/15/15	7,149,916	6,274,396	875,520	49,280
DT2		9-7/8	AE3	11/15/15	6,899,859	3,647,059	3,252,800	108,800
DV7		9-1/4	AF0	02/15/16	7,266,854	6,500,454	766,400	64,800
DW5		7-1/4	AH6	05/15/16	18,823,551	18,653,151	170,400	118,400
DX3		7-1/2	AK9	11/15/16	18,864,448	17,823,168	1,041,280	35,760
DY1		8-3/4	AL7	05/15/17	18,194,169	10,064,889	8,129,280	634,240
DZ8		8-7/8	AM5	08/15/17	14,016,858	10,116,058	3,900,800	185,600
EA2		9-1/8	AN3	05/15/18	8,708,639	2,891,039	5,817,600	9,600
EB0		9	AP8	11/15/18	9,032,870	2,374,670	6,658,200	213,000
EC8		8-7/8	AQ6	02/15/19	19,250,798	9,633,198	9,617,600	1,798,400
ED6		8-1/8	AR4	08/15/19	20,213,832	19,293,512	920,320	125,120
EE4		8-1/2	AS2	02/15/20	10,228,868	8,012,468	2,216,400	219,600
EF1		8-3/4	AT0	05/15/20	10,158,883	3,150,723	7,008,160	147,840
EG9		8-3/4	AU7	08/15/20	21,418,606	6,732,846	14,685,760	686,720
EH7		7-7/8	AV5	02/15/21	11,113,373	9,991,773	1,121,600	0
EJ3		8-1/8	AW3	05/15/21	11,958,888	6,748,648	5,210,240	72,640
EK0		8-1/8	AX1	08/15/21	12,163,482	8,857,562	3,305,920	200,960
EL8		8	AY9	11/15/21	32,798,394	13,767,044	19,031,350	949,675
EM6		7-1/4	AZ6	08/15/22	10,352,790	8,956,790	1,396,000	347,200
EN4		7-5/8	BA0	11/15/22	10,699,626	3,499,626	7,200,000	265,600
EP9		7-1/8	BB8	02/15/23	18,374,361	11,414,361	6,960,000	148,800
EQ7		6-1/4	BC6	08/15/23	22,909,044	18,439,508	4,469,536	107,232
ES3		7-1/2	BD4	11/15/24	11,469,662	3,681,982	7,787,680	168,160
ET1		7-5/8	BE2	02/15/25	11,725,170	2,651,570	9,073,600	134,400
EV6		6-7/8	BF9	08/15/25	12,602,007	7,637,527	4,964,480	34,560
EW4		6	BG7	02/15/26	12,904,916	11,823,016	1,081,900	133,400
EX2		6-3/4	BH5	08/15/26	10,893,818	7,280,218	3,613,600	64,000
EY0		6-1/2	BJ1	11/15/26	11,493,177	8,235,577	3,257,600	240,400
EZ7		6-5/8	BK8	02/15/27	10,456,071	5,856,071	4,600,000	233,600
FA1		6-3/8	BL6	08/15/27	10,735,756	9,903,756	832,000	16,000
FB9		6-1/8	BM4	11/15/27	22,518,539	18,587,339	3,931,200	118,400
FE3		5-1/2	BP7	08/15/28	11,776,201	11,680,201	96,000	0
FF0		5-1/4	BV4	11/15/28	10,947,052	10,706,252	240,800	0
FG8		5-1/4	BW2	02/15/29	11,350,341	11,350,341	0	0
FJ2		6-1/8	CG6	08/15/29	11,178,580	11,178,580	0	0
Total Treasury Bonds..........................					525,910,975	356,383,013	169,527,962	8,086,987
Treasury Inflation-Indexed Notes:								
CUSIP:	Series:	Interest Rate:						
912827 3A8	J	3-5/8	912820 BZ9	07/15/02	17,545,211	17,545,211	0	0
2M3	A	3-3/8	BV8	01/15/07	16,618,514	16,618,514	0	0
3T7	A	3-5/8	CL9	01/15/08	17,387,177	17,387,177	0	0
4Y5	A	3-7/8	DN4	01/15/09	16,201,680	16,201,680	0	0
Total Inflation-Indexed Notes...............					67,752,582	67,752,582	0	0
Treasury Inflation-Indexed Bonds:								
CUSIP:		Interest Rate:						
912810 FD5		3-5/8	912803 BN2	04/15/28	17,364,166	17,364,166	0	0
FH6		3-7/8	CF8	04/15/29	14,962,578	14,962,578	0	0
Total Inflation-Indexed Bonds.....					32,326,744	32,326,744	0	0

TABLE V - HOLDINGS OF TREASURY SECURITIES IN STRIPPED FORM, OCTOBER 31, 1999 -- 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 YE6	D	7-7/8	AU1	11/15/99	10,773,960	5,941,960	4,832,000	246,400
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	16,646,260	100,800	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	6,885,033	3,788,000	20,800
3Y6	Z	5-1/2	CR6	02/29/00	17,776,125	17,774,125	2,000	0
4A7	AB	5-1/2	CT2	03/31/00	17,206,376	17,203,576	2,800	0
4C3	AC	5-5/8	CV7	04/30/00	15,633,855	15,630,655	3,200	0
YW6	B	8-7/8	AW7	05/15/00	10,496,230	4,769,830	5,726,400	65,600
4G4	AD	5-1/2	CZ8	05/31/00	16,580,032	16,326,432	253,600	0
4J8	AE	5-3/8	DB0	06/30/00	14,939,057	14,671,857	267,200	0
4M1	AF	5-3/8	DD6	07/31/00	18,683,295	18,680,095	3,200	0
ZE5	C	8-3/4	AX5	08/15/00	11,080,646	6,651,686	4,428,960	800
4Q2	AG	5-1/8	DF1	08/31/00	20,028,533	20,023,733	4,800	0
4R0	AH	4-1/2	DG9	09/30/00	19,268,508	19,268,508	0	0
4T6	AJ	4	DH7	10/31/00	20,524,986	20,496,986	28,000	0
ZN5	D	8-1/2	AY3	11/15/00	11,519,682	6,624,882	4,894,800	4,800
3M2	X	5-3/4	CF2	11/15/00	16,036,088	16,036,088	0	0
4W9	AK	4-5/8	DL8	11/30/00	20,157,568	20,157,568	0	0
4X7	AL	4-5/8	DM6	12/31/00	19,474,772	19,474,772	0	0
4Z2	U	4-1/2	DP9	01/31/01	19,777,278	19,777,278	0	0
ZX3	A	7-3/4	AZ0	02/15/01	11,312,802	7,926,402	3,386,400	1,600
3W0	S	5-3/8	CP0	02/15/01	15,367,153	15,367,153	0	0
5C2	V	5	DR5	02/28/01	19,586,630	19,586,630	0	0
5D0	W	4-7/8	DS3	03/31/01	21,605,352	21,605,352	0	0
5E8	X	5	DT1	04/30/01	21,033,523	21,033,523	0	0
A85	B	8	BA4	05/15/01	12,398,083	8,494,883	3,903,200	96,850
4E9	T	5-5/8	CX3	05/15/01	12,873,752	12,873,752	0	0
5H1	Y	5-1/4	DW4	05/31/01	19,885,985	19,885,985	0	0
5J7	Z	5-3/4	DX2	06/30/01	19,001,309	19,001,309	0	0
5L2	AB	5-1/2	DY0	07/31/01	20,541,318	20,541,318	0	0
B92	C	7-7/8	BB2	08/15/01	12,339,185	9,203,185	3,136,000	0
5P3	AC	5-1/2	EB9	08/31/01	20,118,595	20,118,595	0	0
5Q1	AD	5-5/8	EC7	09/30/01	18,797,787	18,797,787	0	0
D25	D	7-1/2	BC0	11/15/01	24,226,102	19,715,782	4,510,320	4,400
F49	A	7-1/2	BD8	05/15/02	11,714,397	8,717,357	2,997,040	6,000
G55	B	6-3/8	BE6	08/15/02	23,859,015	22,033,415	1,825,600	198,400
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	11,919,780	200,800	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	13,100,640	13,100,640	0	0
J78	A	6-1/4	BF3	02/15/03	23,562,691	22,729,411	833,280	125,792
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	12,573,248	12,573,248	0	0
4H2	G	5-1/2	DA2	05/31/03	13,132,243	13,132,243	0	0
4K5	H	5-3/8	DC8	06/30/03	13,126,779	13,126,779	0	0
L83	B	5-3/4	BG1	08/15/03	28,011,028	27,414,228	596,800	8,800
4N9	J	5-1/4	DE4	08/15/03	19,852,263	19,852,263	0	0
4U3	K	4-1/4	DJ3	11/15/03	18,625,785	18,524,185	101,600	100,000
N81	A	5-7/8	BH9	02/15/04	12,955,077	12,694,277	260,800	0
5A6	E	4-3/4	DQ7	02/15/04	17,823,228	17,823,228	0	0
P89	B	7-1/4	BJ5	05/15/04	14,440,372	14,284,372	156,000	176,800
5F5	F	5-1/4	DU8	05/15/04	18,925,383	18,925,383	0	0
Q88	C	7-1/4	BK2	08/15/04	13,346,467	12,355,267	991,200	8,000
5M0	G	6	DZ7	08/15/04	18,089,806	18,089,806	0	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	13,806,994	27,760	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	15,203,520	6,400	0
W81	A	5-5/8	BR7	02/15/06	15,513,587	15,513,267	320	0
X80	B	6-7/8	BS5	05/15/06	16,015,475	15,942,195	73,280	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	13,034,430	69,248	0
2U5	C	6-5/8	BX4	05/15/07	13,958,186	13,919,786	38,400	4,800
3E0	D	6-1/8	CA3	08/15/07	25,636,803	25,609,603	27,200	0
3X8	B	5-1/2	CQ8	02/15/08	13,583,412	13,583,012	400	0
4F6	C	5-5/8	CY1	05/15/08	27,190,961	27,190,961	0	0
4V1	D	4-3/4	DK0	11/15/08	25,083,125	25,082,325	800	0
5G3	B	5-1/2	DV6	05/15/09	14,794,790	14,791,990	2,800	0
5N8	C	6	EA1	08/15/09	14,757,014	14,757,014	0	0
Total Treasury Notes					1,238,714,333	1,190,906,525	47,807,808	1,069,842
Grand Total					1,864,704,634	1,647,368,864	217,335,770	9,156,829

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.
November 4, 1999

CONTACT: Office of Financing
202/691-3550

TREASURY OFFERS 13-WEEK, 26-WEEK, AND 52-WEEK BILLS

The Treasury will auction three series of Treasury bills totaling approximately $28,000 million to refund $26,680 million of publicly held securities maturing November 12, 1999, and to raise about $1,320 million of new cash.

In addition to the public holdings, Federal Reserve Banks for their own accounts hold $12,724 million of the maturing bills, which may be refunded at the highest discount rate of accepted competitive tenders. Amounts issued to these accounts will be in addition to the offering amount.

The maturing bills held by the public include $4,752 million held by Federal Reserve Banks as agents for foreign and international monetary authorities, which may be refunded within the offering amount at the highest discount rate of accepted competitive tenders. Additional amounts may be issued for such accounts if the aggregate amount of new bids exceeds the aggregate amount of maturing bills. For purposes of determining such additional amounts, foreign and international monetary authorities are considered to hold $3,868 million of the original 13- and 26-week issues and $884 million of the original 52-week issue.

Note that for the 52-week bill auction the noncompetitive closing time will be 11:00 a.m. and the competitive closing time will be 11:30 a.m. Eastern Standard time. The noncompetitive and competitive closing times for the 13- and 26-week bills will be the normal 12:00 noon and 1:00 p.m. Eastern Standard time, respectively.

TreasuryDirect customers requested that we reinvest their maturing holdings of approximately $977 million into the 13-week bill, $746 million into the 26-week bill, and $441 million into the 52-week bill.

This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular for the Sale and Issue of Marketable Book-Entry Treasury Bills, Notes, and Bonds (31 CFR Part 356, as amended).

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

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Attachment

HIGHLIGHTS OF TREASURY OFFERINGS OF BILLS
TO BE ISSUED NOVEMBER 12, 1999

November 4, 1999

Offering Amount	$10,000 million	$8,000 million	$10,000 million
Description of Offering:			
Term and type of security	90-day bill	181-day bill	363-day bill
CUSIP number	912795 DG 3	912795 DV 0	912795 EH 0
Auction date	November 8, 1999	November 8, 1999	November 9, 1999
Issue date	November 12, 1999	November 12, 1999	November 12, 1999
Maturity date	February 10, 2000	May 11, 2000	November 9, 2000
Original issue date	August 12, 1999	November 12, 1999	November 12, 1999
Currently outstanding	$12,301 million	---	---
Minimum bid amount and multiples	$1,000	$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 highest 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 Rate......... 35% of public offering

Maximum Award.............. 35% of public offering

Receipt of Tenders:

13- and 26-week bills:
Noncompetitive tenders.... Prior to 12:00 noon Eastern Standard time on auction day
Competitive tenders....... Prior to 1:00 p.m. Eastern Standard time on auction day

52-week bill:
Noncompetitive tenders.... Prior to 11:00 a.m. Eastern Standard time on auction day
Competitive tenders....... Prior to 11:30 a.m. Eastern Standard time on auction day

Payment Terms.............. By charge to a funds account at a Federal Reserve Bank on issue date, or payment of full par amount with tender. *TreasuryDirect* customers can use the Pay Direct feature which authorizes a charge to their account of record at their financial institution on issue date.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR IMMEDIATE RELEASE
November 4, 1999

STATEMENT BY TREASURY SECRETARY LAWRENCE H. SUMMERS

I am pleased by today's overwhelming Senate vote in favor of modernizing our financial services laws and look forward to House action on this historic piece of legislation.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR IMMEDIATE RELEASE
Thursday, November 4, 1999

Contact: Bill Buck
(202) 622-2960

STATEMENT BY TREASURY SECRETARY LAWRENCE H. SUMMERS

Today Congress voted to update the rules that have governed financial services since the Great Depression and replace them with a system for the 21st century.

This historic legislation will better enable American companies to compete in the new economy. It will stimulate competition, increase choice and reduce costs for consumers, communities and businesses. It will promote diversification and stability in our financial system. It will provide important new privacy protections for consumers beyond existing law. And it also establishes an important principle: no bank can take advantage of the new opportunities of this law without demonstrating it is serving communities, including low and moderate income communities.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED UNTIL 10:00 A.M. EST
Text as prepared for Delivery
November 5, 1999

TREASURY DEPUTY ASSISTANT SECRETARY GREGORY A. BAER SENATE COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS

Mr. Chairman, Senator Sarbanes, and Members of the Committee:

I am honored to appear before you today as the President's nominee to serve as Assistant Secretary of the Treasury for Financial Institutions.

I am very pleased to have my wife Shirley and my son Jackson here with me today. My younger sons, Matthew and Thomas (who was born last week) are waiting at home, and my father Arthur is rooting me on from his home in Charlotte. Without their considerable support, I would have been unable to take advantage of this opportunity or weather the last few months of financial services legislation.

I am a graduate of the University of North Carolina at Chapel Hill and Harvard Law School. After two years of litigation practice at the firm of Williams & Connolly, I spent seven years in the General Counsel's office at the Federal Reserve Board, rising to the rank of managing senior counsel. At the Board, I performed a wide variety of special projects for the General Counsel, Board, and the Federal Open Market Committee. The focus of the work included legislation affecting the Board, regulatory responsibility for securities activities, inter-affiliate funding limitations, insider lending and other areas, and general troubleshooting.

For the past two years, it has been my privilege to serve at the Treasury Department as Deputy Assistant Secretary for Financial Institutions Policy. In that position, my primary responsibility has been the financial modernization bill that the Senate passed with a strong, bipartisan vote yesterday. I have also coordinated Treasury efforts in developing the President's May 1999 financial privacy and consumer protection initiative, supervised Treasury's Office of Government Sponsored Enterprise Policy, and coordinated Treasury's response to the Presidential Decision Directive on critical infrastructure protection -- working to protect our financial services system

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If confirmed as Assistant Secretary, I hope to continue the close working relationship with this Committee that has been forged through our work on the financial services bill and other issues.

In closing, I would like to thank the President for nominating me for this position, and Secretary Summers and former Secretary Rubin for the confidence that they have placed in me. I am excited at the opportunity to continue my public service at the Treasury Department, a place where the extraordinary talents of my coworkers is a continuing source of inspiration and pride.

I now look forward to answering your questions.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED UNTIL 11 AM EST
Text as Prepared for Delivery
November 5, 1999

SECRETARY OF THE TREASURY LAWRENCE H. SUMMERS
TESTIMONY BEFORE THE SENATE COMMITTEE ON FOREIGN RELATIONS

Mr. Chairman, Ranking Member Biden, and Members of this Committee, I am pleased to have this opportunity to discuss recent developments in the global economy and the ongoing reform of the global financial architecture, especially the International Monetary Fund - which I know to have been of considerable interest to this committee and other members of Congress.

Let me focus my remarks on four issues:

- First, the current outlook for the global economy, including the crisis economies in which the IMF has recently been actively involved.

- Second, core lessons for national policy makers and the international community from the experiences of the past few years.

- Third, recent reforms of the IMF and the broader international financial architecture with particular reference to the areas that were emphasized in last year's IMF legislation.

- Fourth, further architectural reform issues that the United States will be pursuing going forward.

I. The Global Economic Outlook and Prospects for the Emerging Market Economies

Looking around, I think that most would agree that the global economic outlook has improved significantly since I spoke to the Subcommittee on International Economic Policy and Export and Trade Promotion last winter, and certainly since last year when Congress was grappling with the issues of IMF funding and reform.

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Forceful domestic policy steps in Korea, Thailand and Brazil - combined with the substantial financial support that was mobilized by the official community - have brought important progress in setting these countries on the path to recovery. Market confidence in these and other emerging market economies is on the mend.

- In Korea, net foreign reserves have risen to more than $65 billion – compared to less than $5 billion at the end of 1997, when the country was looking squarely at the possibility of default. Overnight interest rates, which rose to 35 percent during the crisis, have been in the low single digits since early 1999. And private forecasters expect the economy to grow this year by more than 8 percent.

- In Thailand, net reserves are now hovering close to $30 billion, compared to around $1 billion in the thick of the crisis. Overnight interest rates are below 1 percent. And private forecasters predict growth of 3 or 4 percent in 1999.

- In Brazil, interest rates are today less than half their level in February, output is roughly where it was before the crisis and inflation this year is expected to remain in single digits.

This progress has contributed to a general improvement in global economic conditions. The United States economy continues to show strong, non-inflationary growth. There are signs of modest improvement in Europe and indications that the economic decline in Japan has been arrested.

But the global economy is not out of the woods yet. While the balance of risks for the global economy may have tilted somewhat in the right direction, it would be a mistake to see this trend as inexorable. Economic conditions in a number of countries and regions are still fragile. Near-term action on a number of fronts will be necessary to achieve a sustained and more balanced global recovery.

Notably:

In Japan: while important policy steps have been taken, it is far from clear that a sustained recovery is on the horizon. Until recovery is firmly established, Japan needs to continue with steps to promote domestic demand-led growth, including supportive monetary policies and continued fiscal stimulus until there is a self-sustaining recovery in domestic private demand. In addition, work needs to continue on the banking sector, notably the permanent disposal of bad assets.

In Europe: while the weakness of late 1998 and early 1999 appears to have come to an end, domestic demand still lags behind. If Europe is to play its part in supporting global growth, the policy emphasis should be on structural reforms to boost domestic investment and demand - in addition to supportive macro-economic policies.

In Latin America: while growth is expected to resume across much of Latin America next year, at a time of unsettled international financial markets countries will need to keep their focus on disciplined macro-economic policies and deepening economic reforms, including the strengthening of financial sectors.

In Emerging Asia: while important progress has been made in many of the crisis economies, the risk of reform fatigue and complacency are serious ones. Along with maintaining appropriate macro-economic policies, the Asian emerging market economies must push ahead with structural reforms, especially in the corporate and financial sectors, if they are to lay a durable foundation for market-led growth.

In Russia: the government has continued to face enormous economic and political challenges in the wake of the economic and financial collapse of August 1998. The capacity of the international community to help bring about positive change going forward will depend ultimately on the will and capacity of Russian authorities and the Russian people to carry forward critical structural and other reforms, including measures to strengthen their financial system and finally creating a genuine rule of law. In this context it is especially important that Russia intensify efforts to combat corruption and money laundering and safeguard against the inappropriate use of official resources. I will say a little more about this issue in few minutes.

II. Core Lessons of the Emerging Market Crises

The programs that the international community supported in Asia and elsewhere were defined by pragmatism about the nature of the challenge each country faced and were centered on strong macro-economic and structural measures to restore confidence. Where this approach has been implemented decisively by national authorities, stability and confidence have by and large returned—and governments have been able to relax monetary and fiscal conditions relatively quickly to support faster growth.

At the same time, battlefield medicine is always imperfect. Certainly there is room to debate whether, in every given instance, the precise policies that the IMF and the international community supported in response to these crises were always the right ones.

With the benefit of hindsight I think we can draw five broad lessons from the experience of the past few years:

First, countries shape their own destinies. By far the greatest responsibility for causing, and responding effectively, to crises lies with countries themselves. The fact that most countries with IMF programs in place have severe economic problems does not imply that the IMF is responsible for those problems - any more than the fact that most people in a hospital are severely ill would be evidence of medical malpractice.

Second, there is no substitute for strong national policies. Where the domestic commitment to strong policies is present, we have learned that conditioned international support can play an important role in countering the bank run psychology that has taken hold in the recent crises.

But any amount of external support will just flow straight back out of the country if that domestic commitment is lacking.

Third, adopting a fixed exchange rate system without renouncing domestic monetary policy discretion is a recipe for trouble. These crises have brought home once and for all that a fixed, but not firmly institutionalized exchange rate regime holds enormous risks for emerging market economies in a world where fast-flowing capital and insufficiently developed domestic financial systems coincide.

Fourth, weak financial systems and opaque relationships between government and the private sector greatly enhance the risks of crises in a more globalized world. Lack of transparency, too much lending on the basis of too many implicit public guarantees - the risks of these and other micro-economic distortions that are associated with the phrase "crony capitalism" were all brought home in a much more dramatic way in the financial crises in Thailand, Indonesia and elsewhere. While these things had not prevented unprecedented growth gains in some of these countries in previous decades - they surely did contribute to the severity of the collapse when trouble came. That is why priorities such as increased transparency, effective bankruptcy and insolvency regimes and combating corruption have continued continue to be such a high priority for the United States in its approach to architectural reform.

Fifth, private sector coordination can play a valuable role in the restoration of confidence. When investors start to withdraw large quantities of capital from a country whose underlying prospects are strong, the system as a whole has a stake in supporting policies that successfully turn those investors around. We have seen, notably in Korea in December of 1997, and Brazil in February of 1999, that voluntary private sector involvement in recognition of its mutual interest in avoiding withdrawals can form part of a successful solution.

III. The Reform of the IMF and the Broader International Financial Architecture

Financial crises of the scale and severity we have seen in recent years pose a major threat to the construction of a strong, truly global financial system - a threat to which the international community has rightly and vigorously responded in what has come to be called the reform of the global financial architecture.

This has produced some important achievements, of which perhaps the most significant over the long term will be the rejection of the idea that it could be the work of the major industrial nations alone. We have seen this reflected in the creation of the G20. This grouping, which will meet for the first time next month, will be a permanent informal mechanism for dialogue on key economic and financial issues among industrial and emerging market economies who among them will account for more than 80 percent of global GDP.

A fundamental change in the basic quality of economic and financial policies in the emerging market economies has been - and must continue to be - at the core of our efforts to build on these achievements and reduce the risk of these kinds of crises in the future. Going forward, we must continue to raise the bar on what is expected of countries in these areas, and to strengthen the incentives for countries to meet them.

And yet, while major improvements in national policies are clearly necessary for a stronger global financial system - they are not sufficient. A major element of architectural reform must also be more effective policies and incentives at the international level.

In recent years the Administration has pushed forward with this effort in three major respects, each of them supported by last year's IMF legislation:

- We have changed the terms of the exceptional financial support that the international community provides, to make it more market-based and reduce moral hazard, with the creation of the IMF's Supplementary Reserve Facility and most recently its Contingent Credit Line.

- We have catalyzed a major global effort to reduce national vulnerabilities to crises, with concrete steps to help countries develop stronger national financial systems and improved international surveillance, including increased incentives to pursue sound policies before trouble crisis strikes - including the additional incentives embodied in the terms of the CCL.

- And we have found new ways to involve the private sector in the resolution of crises - most notably in the case of Korea and of Brazil.

A more effective IMF will be central to all of these tasks and has rightly been a major focus of energy and interest in this Committee and elsewhere in Congress. Since the start of this Administration - and particularly in the wake of recent crises - the United States has worked to bring about a dramatic change in the orientation of the IMF.

Let me highlight five areas in particular that were emphasized in last's year legislation:

Increased transparency

We have helped to bring about a sea of change in transparency and accountability - a sea of change that is perhaps most visible in the IMF's new policies on the public release of official documents.

- In large part as a result of Administration and Congressional urging, Public Information Notices, which summarize the key Board discussions about a country's policies, have been released in respect of 81 percent of the IMF's Article IV consultations with member countries to date in 1999. And 45 countries have now agreed to participate in the pilot project to publish the annual staff reports prepared for those consultations.

- Since June, 28 of 33 countries have agreed to publish the full set of their program documents considered by the IMF Board - including Letters of Intent - which detail the policy commitments that they have undertaken as a condition for IMF support.

- Many key policy documents are also now posted on the IMF web site; this includes publication in a timely manner of the key papers being debated by the Board on debt relief and the reform of the Enhanced Structural Adjustment Facility. The web site also now carries detailed information about the IMF's financial resources and liquidity position and the Annual Report.

Stronger promotion of public investments in growth and social stability

We have urged the IMF, in cooperation with the World Bank, to press more actively to channel scarce public funds away from unproductive purposes such as showcase projects and excessive military spending - and toward policies that support growth and poverty reduction. But ensuring adequate funding for high-yield investments in human resources needs to be a higher priority. To make progress in this area, there will need to be greater transparency in and accountability for government spending, including military spending.

In large part as a result of pressure by the United States, the IMF has also recognized the importance of establishing or strengthening social safety nets in order to reduce the social costs of rapid structural adjustments. For example, the United States Executive Director has pressed for the IMF to pay greater attention to these issues in specific cases such as South Korea and Thailand, where we have called for improved unemployment insurance schemes and programs to retrain displaced workers.

Strong support for market opening and trade liberalization

Trade liberalization is often a key component of IMF arrangements. In the course of its recent negotiations the IMF has sought continued compliance with existing trade obligations and further commitments to market opening measures as part of a strategy for spurring growth. For example:

- As part of its IMF program, Indonesia has abolished import monopolies for soybeans and wheat; agreed to phase out all non-tariff barriers affecting imports; dissolved all cartels for plywood, cement and paper; removed restrictions on foreign investment in the wholesale and resale trades; and allowed foreign banks to buy domestic ones.

- Zambia's 1999 program with the IMF commits the government to reducing the weighted average tariff on foreign goods to 10 percent, and to cutting the maximum tariff from 25 percent to 20 percent by 2001. In July, the import ban on wheat flour was eliminated.

More energetic promotion of core labor standards

The United States is the most vigorous proponent of core labor standards in the IMF. Despite reluctance by many member countries to address this issue, some progress has been made. During this past year, as a result of U.S. efforts, labor issues were addressed in a number of important IMF programs. For example:

- In Brazil, we have stressed to the IMF and the Brazilian government that budget austerity measures not impact on those agencies responsible for enforcing labor laws, and that social programs for the poor and disadvantaged be spared from cuts as much as possible. Recently, the Brazilian government has submitted to Congress a labor reform package that provides for increased flexibility while reducing restrictions on the creation of new unions and promoting direct bargaining between unions and employers at the firm level.

- Under strong urging from the United States and the IMF, Indonesia introduced and approved legislation last year ratifying the ILO's Convention 87 on freedom of association - considered one of the most important ILO core conventions.

The United States is engaging other international organizations on this issue. We have vigorously promoted improved cooperation between the IMF and the ILO. As a result, in April, the ILO participated, for the first time ever, as an observer at a meeting of the IMF's Interim Committee - now the International Financial and Monetary Committee. It now has permanent observer status in that committee.

An enhanced focus on environmental protection

We have has consistently voiced in the IMF our belief that economic development is inextricably linked to environmental conditions - and that macro-economic stability is a minimum and necessary condition for preserving the environment. Operationally, the IMF relies on the expertise of the World Bank for analysis of environmental issues in individual countries. However, due in part to our urging, IMF staff has been increasingly diligent in ensuring that macroeconomic frameworks are supportive of sound environmental policies, with the goal of promoting sustainable development.

For example, in Brazil, the IMF emphasized the importance of protecting to the greatest extent possible environmental and other priority expenditures from needed fiscal cuts. When evidence emerged that key pilot programs for environmental protection could suffer deep cuts, the United States government and the IFIs, led by the World Bank, raised concerns with the Brazilian government, and the funds were restored.

Mr. Chairman, these and other reforms that the United States has supported at the IMF are listed in greater detail in the Report on the implementation of last year's legislation that was submitted to Congress on October 1. As this Report makes clear, we have made progress in the effort to develop a 21st century IMF. But we have no doubt that further change is needed.

We said many times last year that a well-funded IMF was indispensable to a stable global financial system. But as we also said at that time - that does not mean we can be satisfied with the IMF as it is.

IV. Key Reform Priorities Going Forward

The reform of the global financial architecture is an organic and many-sided process that will never entirely be completed. But recent events have highlighted important areas for reform - and major issues that the United States and the international community will need to address going forward.

Let me highlight five crucial priorities for future architectural reforms:

Promoting good governance and reducing corruption

In line with continued pressure from the United States, governance issues have played an increasingly important role in the decisions of the IMF and multilateral development banks. This has been brought out most clearly in the approach that the international community has recently taken toward Russia in the wake of the economic and financial collapse in the summer of 1998.

The IMF program in July 1999 was very different from all of Russia's prior IMF programs. The first disbursement under the new IMF program - as well as any subsequent disbursements - was predicated on the imposition of new safeguards to protect the use of that money. The funds were provided in the form of Special Drawing Rights, paid into an account at the IMF and can be used only to repay Russian obligations to the Fund. In addition, approval of the program required Russia to complete a satisfactory independent investigation of the Russian central bank's investment in Fimaco and of the July 1998 IMF disbursement.

Our continued support for IMF or World Bank engagement with Russia is predicated on Russia's compliance with crucial conditions to ensure financial integrity and to safeguard any assistance provided. Specifically, the most recent review of Russia's program is requiring the investigation of other offshore central bank subsidiaries, in addition to other steps to improve internal controls and initiate quarterly audits of the central bank's reserve management practices.

In light of our experience in Russia, the United States and others in the G7 have now called for authoritative and systematic reviews by the IMF and the World Bank to find ways to strengthen safeguards on the use of their funds in all of their lending activities. We believe that this review should include: more systematic use of external audits of the central banks that are the recipients of official funds; new IMF program requirements to enhance countries' internal safeguards against misappropriation; and steps to strengthen the IMF's capacity to deter and penalize misuse of its funds, including in "post-program" cases where all disbursements have been made.

Promoting appropriate private sector involvement

The United States has actively promoted, as part of the strengthening of the international financial architecture, an appropriate role for the private sector in forestalling and resolving financial crises. To be sure, there are no easy answers to the question of what is the best mix of domestic policies, external official support and appropriate private sector involvement, if any, needed to restore confidence in the future crises that may arise.

Every crisis is unique, and we need to maintain the flexibility to respond accordingly. But the G7 Communiqué of last June established, for the first time, a useful broad framework for our efforts in future cases.

The G-7 framework promotes appropriate involvement of private sector lenders in crisis resolution and aims at a system in which countries are encouraged to address debt problems in a market-based, orderly way. It recognizes the need to balance competing considerations on a case-by-case basis, in a way that preserves the fundamental principle that creditors should bear the consequences of the risks they assume, while not undermining the equally essential principle that debtors should honor their obligations in full and on time. At the same time, we all understand that this is an enormously complex and important issue that will need to be the focus of continuing attention.

Reducing Vulnerabilities to Crises in Emerging Market Economies

As I have said, many of the economies worst affected by crises have made enormous progress in the past year. But as global confidence begins to return and memories of the crises begin to ebb, it becomes even more important for us press forward the frontier to ensure that countries are less vulnerable to the kind of bank run dynamic we saw take hold in Asia and elsewhere.

Among other things, increased safety will require:

- *Safer exchange rate regimes.* The IMF and the official sector as a whole needs to help countries avoid the trap of an exchange rate regime that may appear to offer stability but that - if not solidly backed by credible institutional arrangements and consistent domestic policies - may encourage large risks to build up unnoticed. Over time, it should increasingly be the norm that countries involved with the world capital market avoid the "middle ground" of pegged exchange rates with discretionary monetary policies. And where countries choose the middle ground, and their own policies are not sufficient to stem an attack on a particular exchange rate level, the international community should have a compelling rationale before it provides exceptional support for the country to defend it.

- *More prudent management of national balance sheets.* A number of groups have looked at guidelines for improved risk management at a national level and simple balance sheet rules for countries to follow to reduce their vulnerability to sudden withdrawals of capital in the future. The next steps must be to develop more sophisticated systems for evaluating an economy's vulnerability to different types of shock, and to establish stronger incentives for countries to put these in place. In response to our call, the IMF and the World Bank will shortly develop best practice guidelines in this area as part of a more global effort.

Effective Strategies to Promote Growth and Poverty Reduction in the Poorest Countries

With the partial recovery in global confidence we also have an opportunity to intensify the International Financial Institutions' search for more effective ways to support enduring growth in the very poorest countries. In the end the only ones who can build a better future for these countries are their own governments and citizens. But when many are laboring under the debts that they owe to the international community, we owe them a fresh start in the way we seek to help.

This global imperative is at the root of the new approach to the provision of concessional finance to the poorest countries that is reflected in the new Poverty Reduction and Growth Facility (PRGF), which the United States has promoted in the context of the Heavily Indebted Poor Country initiative (HIPC). The PRGF will be part of a collaborative approach with the World Bank based on poverty reduction strategies initiated by the countries themselves. By putting poverty reduction and high quality growth front and center, this new approach aims to support more effectively countries' efforts to put their economies on sound and sustainable footing and achieve their development goals.

Together with the enhanced debt relief under HIPC that was agreed by the G7 leaders in Cologne, this new joint IMF-Bank process for providing conditioned assistance to the poorest economies marks a major step forward - one with enormous potential for kick-starting reform and growth in sub-Saharan Africa and other markets of tomorrow.

Enhance the overall effectiveness of the International Financial Institutions

Finally, as we consider the international financial architecture we have and the one we would like to have, we must always consider not merely the individual parts of that system such as the IMF, but the sum of those parts. Concretely, in light of recent experiences we must continue to focus on how the IMF, the World Bank and other IFIs all work together, so that each is playing to its strengths - and complementing the activities of the others rather than complicating them.

To be sure, the question of the appropriate role for each of these institutions has been endlessly debated and does not yield many easy answers. But the new PRGF - and the more inclusive approach to the provision of assistance that it represents - marks one important landmark in the search for a better solution. Further progress in enhancing collaboration between the IMF and the World Bank on the financial sector issues that have been so central to recent crises would mark another.

Already, at the urging of the United States, the staffs of these institutions have taken steps to work more closely with one another on these questions. And they are now moving forward with a new Joint Financial Sector Assessment Program (FSAP) that will involve in-depth assessments to identify financial system strengths and vulnerabilities in individual countries.

At the same time, in this area - as is true more generally - both the IMF and the World Bank will need to devote greater effort going forward to giving true meaning to the word "joint", and to better deploying their respective resources in the way they prevent and respond to crises and in their design and delivery of programs and technical assistance.

V. Concluding Remarks

Mr. Chairman, as I said earlier, the reform of the IMF and the global financial architecture more generally is a process, not a journey with a final destination. However, taken together, it is fair to say that the events of the past few years - and the changes they have helped to set in train - mark an important new stage in the system's evolution.

What will be crucial going forward will be pushing forward in the areas I have highlighted, and pressing for the safer policies and institutions at a national level upon which this new system will ultimately depend. In a world of sovereign nations our goal cannot to be to prevent governments from ever making mistakes. What our goal must be, as we move forward from the events of the past few years, is to provide the best possible system for encouraging sound policies - and for minimizing the broader costs to the international system as a whole when crises strike.

With the major reforms that have taken place in the past year, including many that were specified in the legislation last fall, we have made some important progress. But we know that we have a great deal more to do. I look forward to working with you, Mr. Chairman, with others in this Committee and with others in Congress as we work to progress further in the months to come. Thank you. I would now welcome any questions.

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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 PLANNING PURPOSES ONLY
November 5, 1999

Contact: Bill Buck
(202) 622-2960

MEDIA ADVISORY

TREASURY DEPARTMENT LAUNCHES ATM PILOT PROGRAM IN BALTIMORE

Treasury Under Secretary for Domestic Finance Gary Gensler will join U.S. Senator Paul Sarbanes, Post Master General William J. Henderson, and Key Corporation Chairman and CEO Robert W. Gillespie to launch a pilot program which places Automated Teller Machines (ATMs) in Post Offices in communities underserved by financial institutions. The event will take place at the Post Office at Lexington Market Center, 130 North Greene Street, Baltimore, MD at 10:00 a.m., Monday, November 8.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR IMMEDIATE RELEASE
November 5, 1999

Contact: Lydia Sermons
(202) 622-2960

MEDIA ADVISORY

Treasury Deputy Secretary Stuart E. Eizenstat and Count Otto Graf Lambsdorff, Special Representative for the German Foundation Initiative, will hold a joint press conference on the Holocaust forced and slave labor negotiation meetings **today** at **3:30 p.m.** in the **Cash Room** of the Main Treasury Building, 1500 Pennsylvania Avenue, N.W.

Media without Treasury, White House, State Department, Defense Department or Congressional press credentials planning to attend should contact Treasury's Office of Public Affairs at (202) 622-2960, with the following information: name, social security number or date of birth. Foreign press should include foreign passport numbers. This information may also be faxed to (202) 622-1999. The Cash Room will be available for pre-set at 2:30 p.m.

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DEPARTMENT OF THE TREASURY

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Text as Prepared for Delivery
November 5, 1999

STATEMENT BY TREASURY DEPUTY SECRETARY STUART EISENSTAT ON FORCED AND SLAVE LABOR NEGOTIATIONS

Count Otto Lambsdorff and I have had a very useful meeting. We are getting down to the final phase of these long and difficult negotiations, and he was kind enough to come here and tell me what he and his colleagues have been doing in Germany to help bring them to a successful conclusion.

May I say first that we would not have been able to get this far without the active engagement of the German government, and especially of Chancellor Schroeder. I want to express my appreciation to him for all he has done and all he is doing.

Our progress continues. We have now reached agreement on the issue of lawsuits against German companies brought in U.S. courts that we all believe should satisfy the legitimate concerns of German companies seeking legal closure in American courts in return for contributing to the German Foundation Initiative. Because my Government believes that the Foundation Initiative provides the fairest and most expeditious way of compensating elderly survivors, we also believe that action at the federal, state or local level which are inconsistent with legal closure would be harmful to the process we are trying to create.

The one barrier to success in these negotiations is the question of the amount of money which will be made available to accomplish the work of the Foundation Initiative. I have repeatedly urged all participants to be flexible in this regard. I am pleased to report that the plaintiffs' attorneys and the German Government are demonstrating that flexibility.

As a group, plaintiffs' attorneys have substantially reduced their original demand. I have reason to believe they are willing to show continued flexibility.

The German offer currently consists of DM 4 billion from German industry and DM 2 billion from the government. The government, despite its considerable current budget difficulties, has indicated to me through Count Lambsdorff that is considering a higher total German offer that would be accomplished through an increase in the government's share of the contribution.

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All of this represents significant movement toward agreement on the last remaining issue. It is now incumbent upon the German companies to follow the lead of their government and show their own flexibility.

Our next round of negotiations is scheduled for Bonn November 16 and 17. We discussed today the type of negotiating structure that will best facilitate significant progress at this session. Our goal remains to agree on a suitable figure and to conclude these negotiations as soon as possible.

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FOR IMMEDIATE RELEASE
Text as Prepared for Delivery
November 8, 1999

UNDER SECRETARY OF THE TREASURY FOR DOMESTIC FINANCE
GARY GENSLER
REMARKS AT ATM PILOT PROJECT ANNOUNCEMENT
BALTIMORE, MD

Good morning. I want to thank Senator Sarbanes for the leadership he has provided on expanding access to capital and financial services in all of our communities. I also would like to thank Postmaster General Henderson for his role in making this pilot program possible. We look forward to working with KeyCorp to make the Postal ATM pilot project a success. I am personally very honored to be participating in this event -- Baltimore is my hometown.

Our country is enjoying unprecedented economic prosperity. One of the most important challenges that we face is finding ways to enable all Americans to share in this prosperity. Providing people with access to financial services is critical to bringing them into the economic mainstream. It is increasingly difficult to participate fully in our modern economy without access to a bank account and high quality banking services. Today, having a bank account can be as essential as having a telephone or reliable transportation. It is a critical step to enabling families and individuals to save money, to establish a credit record, and to plan for the future.

Unfortunately, the ease of access to financial services has been reduced significantly in many communities. When my parents and grandparents shopped at Lexington Market, there were two banks down the block. Where are the Eutaw Savings Bank and Maryland National Bank branches today? Times have changed. Banks that once served this community are gone.

Today, we are taking a step to restore a part of the banking services this community once had. We want every American to enjoy the same convenience and access that our parents and grandparents enjoyed. The Postal ATM pilot project is part of Treasury's efforts to find new and creative ways to help individuals and families in low and moderate income areas. They need to have access to their money in a safe, convenient, and affordable manner. We believe the Postal ATM pilot project has the potential to make the financial system more accessible in communities

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where traditional banking services are limited.

The Postal ATM pilot project is just one of our initiatives. Treasury also has launched a program to work with financial institutions to offer low-cost, no-frills accounts. The accounts, called ETAs, will be available to recipients of federal payments. These accounts will be yet another way of bringing individuals who do not now have bank accounts into the financial mainstream. By allowing people to receive federal benefits electronically, they will no longer have to worry about losing their checks or having them stolen.

Providing safe and convenient access to banking services to neighborhoods such as this one, will help to ensure that the financial system is working for all Americans.

Thank you.

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FOR IMMEDIATE RELEASE
November 8, 1999

Contact: Bill Buck
(202) 622-2960

TREASURY DEPARTMENT LAUNCHES PILOT ATM PROGRAM IN BALTIMORE

Treasury Under Secretary for Domestic Finance Gary Gensler unveiled on Monday an innovative pilot program in Baltimore which places automated teller machines (ATMs) in post offices to increase access to financial services in the communities in need.

"Providing safe and convenient access to banking services in traditionally underserved communities will help to ensure that the financial system is working for all Americans," said Under Secretary Gensler. "This ATM will help to ensure that families in this neighborhood can have bank accounts that are truly accessible."

Under Secretary Gensler was joined at the event by Senator Paul Sarbanes (D-MD), Post Master General William J. Henderson, and Key Corporation Chairman and CEO Robert W. Gillespie. They unveiled an ATM at the post office at Lexington Market Center, 130 North Greene Street in Baltimore.

This program is part of the Treasury Department's ongoing effort to improve access to financial services and to move individuals into the financial mainstream. Treasury is partnering with the U.S. Postal Service in this one-year pilot program to provide access to money through commercial automated teller machines in local post offices.

Customers may use ATM, debit or credit cards issued by most financial institutions in the Baltimore-area. Additionally, the pilot ATMs will provide access to Maryland Electronic Benefit Transfer (EBT) services, state cash benefits otherwise known as the Maryland Independence Card. There will be no fee charged to use the ATM.

KeyBank, N.A., of Cleveland, Ohio, will own, operate and maintain the ATMs.

In addition to the Lexington Market Center post office, Baltimore has two other pilot locations: the Druid Station post office at 1826 Pennsylvania Avenue and the South Station post office at 146 West Ostend Street. Three pilot locations have also been established in rural areas outside Tallahassee, Florida.

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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
November 08, 1999

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Term:	90-Day Bill
Issue Date:	November 12, 1999
Maturity Date:	February 10, 2000
CUSIP Number:	912795DG3

High Rate: 5.030% Investment Rate 1/: 5.177% Price: 98.743

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 18%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 24,386,398	$ 8,412,898
Noncompetitive	1,386,248	1,386,248
PUBLIC SUBTOTAL	25,772,646	9,799,146 2/
Foreign Official Refunded	215,000	215,000
SUBTOTAL	25,987,646	10,014,146
Federal Reserve	4,549,485	4,549,485
Foreign Official Add-On	0	0
TOTAL	$ 30,537,131	$ 14,563,631

Median rate 5.005%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 4.950%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 25,772,646 / 9,799,146 = 2.63

1/ Equivalent coupon-issue yield.
2/ Awards to TREASURY DIRECT = $1,072,226,000

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED UNTIL 2:30 P.M.
November 8, 1999

Contact: Office of Financing
202/691-3550

TREASURY TO AUCTION CASH MANAGEMENT BILLS

The Treasury will auction approximately $16,000 million of 66-day Treasury cash management bills to be issued November 15, 1999.

Competitive and noncompetitive tenders for bills to be issued in the Treasury/Reserve Automated Debt Entry System (TRADES) will be received through the Federal Reserve System. Tenders will not be accepted for bills to be maintained on the book-entry records of the Department of the Treasury (*TreasuryDirect*). 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 highest discount rate of accepted competitive tenders.

The auction being announced today will be conducted in the single-price auction format. All competitive and noncompetitive awards will be at the highest discount rate of accepted competitive tenders.

This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular for the Sale and Issue of Marketable Book-Entry Treasury Bills, Notes, and Bonds (31 CFR Part 356, as amended).

NOTE: 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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HIGHLIGHTS OF TREASURY OFFERING
OF 66-DAY CASH MANAGEMENT BILL

November 8, 1999

<u>Offering Amount</u> .... $16,000 million

<u>Description of Offering</u>:
Term and type of security .... 66-day Cash Management Bill
CUSIP number .... 912795 DD 0
Auction date .... November 10, 1999
Issue date .... November 15, 1999
Maturity date .... January 20, 2000
Original issue date .... July 22, 1999
Currently outstanding .... $24,577 million
Minimum bid amount and multiples ... $1,000

<u>Submission of Bids</u>:
Noncompetitive bids .... Accepted in full up to $1,000,000 at the highest accepted discount rate.
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 11:00 a.m. Eastern Standard time on auction day
Competitive tenders .... Prior to 11:30 a.m. Eastern Standard time on auction day

<u>Payment Terms</u> .... By charge to a funds account at a Federal Reserve Bank on issue date, or payment of full par amount with tender.

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EMBARGOED UNTIL 10:00 AM EDT
Text as Prepared for Delivery
November 9, 1999

TREASURY SECRETARY LAWRENCE H. SUMMERS TESTIMONY BEFORE THE HOUSE COMMITTEE ON WAYS AND MEANS

Mr. Chairman, Mr. Ranking Member, Members of the Committee, I appreciate the opportunity to appear before you today to discuss the President's plan for preserving Social Security, which I know to be of great interest to this Committee and others in Congress.

During the last six years, the United States has made enormous progress toward putting this country's budget on a sustainable long-term path. The core principle underlying the Social Security legislation recently put forward by the President is that we should work to preserve and extend that progress -- and ensure that its benefits are devoted as much as possible to meeting this country's long-term priorities.

In this context, I would like to address three topics:

- First, the dramatic fiscal progress that has been achieved in the 1990s and the benefits for the American people that have resulted,
- Second, the President's plan for maintaining this progress and ensuring that the savings it brings will not be dissipated, and
- Third, the broader significance of the President's plan and our further economic and fiscal priorities going forward.

I. Recent Fiscal Accomplishments

It is fair to say that fiscal responsibility has been the centerpiece of this Administration's economic policy from its very beginning. In conjunction with strong economic growth, difficult and sometimes unpopular choices that we made in 1993 and 1997 have helped to turn years of unified budget deficits into a surplus.

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In 1992, the unified deficit was $290 billion and projected to rise; in 1998, we achieved a surplus of $69 billion, and in the fiscal year just completed, the surplus increased to $123 billion. During the past two years, we paid down $140 billion of debt held by the public, the largest decrease on record. As a result, the debt that was held by the public at the end of fiscal year 1999 was $1.7 trillion less than was projected when President Clinton took office.

The result for the American economy is that we have moved from a vicious circle of rising debt and lagging economic performance to a virtuous cycle of fiscal discipline and continued strong economic growth. An additional $1.7 trillion that would have been absorbed by government borrowing has instead been invested in America's future -- in its businesses, workers, and communities.

With the resources that this progress has made available, business investment has surged, with purchases of equipment and software growing at double-digit rates for six years in a row. A rising capital stock, in turn, has contributed to a rise in workers' productivity: productivity in the nonfarm business sector has accelerated to a 2.1 percent annual average rate since the end of 1995 from the 1.4 percent that prevailed from the 1970s through the early 1990s.

And higher productivity, in turn, has helped produce higher real wages and higher standards of living. For the first time in a generation, we are seeing real wages rise. Most encouraging, real wage increases seem now to be reaching a broader spectrum of Americans, with low- and moderate-income workers benefiting in addition to workers further up the economic ladder.

When the Federal government reduces its draw on the pool of savings, interest rates fall. This decline not only lowers the cost of capital to businesses; it makes it easier and cheaper for people to borrow money to purchase houses, to buy cars and to send children to college. For example, a family with a home mortgage of $100,000 might expect to save about $2000 in mortgage costs each year. As housing has become more affordable during the past six years, an additional 8.7 million families have become homeowners, and the homeownership rate has risen to a record high.

A smaller debt also means lower interest costs for the Federal government. Net interest payments since 1993 have been a cumulative $191 billion lower than projected in 1993, which amounts to roughly $2700 per American family.

In all of these ways, our strategy of fiscal responsibility is producing tangible benefits for American workers, homeowners, and taxpayers.

A similar improvement has taken place in the stance of the government budget excluding Social Security. From a record high of $340 billion in 1992, the non-Social Security deficit, just like the unified budget, has improved in every year of the

Administration. Building on the achievement of a balanced unified budget, the President, in his June budget review, highlighted the importance of setting a higher fiscal objective -- balancing the government's books without using the surpluses generated by the Social Security system.

Balancing the on-budget account would mean that the bonds accumulating in the trust fund would be matched very nearly dollar-for-dollar by a reduction in debt held by the public. Put differently, accumulations in the Trust Fund will truly represent accumulations of a national asset -- an increased capacity to meet our obligations to tomorrow's retirees.

This is the responsible way to prepare for the retirement of the baby boom generation: increasing the productive capacity of the economy and thus making tomorrow's workers more productive and better able to meet the benefits obligations that are promised under current law. The increment to national saving from following this approach would be dramatic: under current projections the debt held by the public would be completely paid off by 2015.

II. The Right Principles for Preserving Social Security

This discussion brings us to the crucial question. If we achieve this degree of fiscal success, how should we use the interest savings that result? Should we use them for a tax cut, for additional spending, or for Social Security? The responsible answer to this question needs to take into account two important facts about the future.

First, the retirement of the baby boomers in coming decades stands to put great stress on Social Security, which is the cornerstone of our retirement system. Social Security benefits are the largest source of income for two-thirds of Americans over age 65 and the only source of income for 18 percent of them.

The system has enjoyed dramatic success in reducing poverty among retirees, helping to lower the elderly poverty rate from 35.2 percent in 1959 to around 10.5 percent in 1998 -- although poverty among certain groups, such as elderly widows, remains high. Without Social Security, nearly half of today's elderly would be in poverty. We should not forget that it is also a major family protection plan: nearly one third of Social Security beneficiaries is under the age of 62 and receiving either disability benefits or survivors' benefits.

The aging of our population will challenge all of these accomplishments. In fact, the Social Security trust fund is predicted to be exhausted by 2034.

Second, in making our budget plans we need to remember that the savings that would result from continuing on the current path of fiscal discipline would be very large indeed. If we follow the President's budget framework, the amount that the Federal government spends on interest payments, relative to the interest payments that would prevail if the government balanced the unified budget, would be $107 billion lower in 2011 and more than $200 billion lower per year by 2016. We believe that we should earmark those savings to meet the commitments to future retirees that are implicit in our existing Social Security system.

Let me now describe the four main principles underlying the President's approach:

The first principle is that we should respect the integrity of the Social Security Trust Fund. By ensuring that all of the Social Security surpluses are used to pay down debt, rather than finance other government activities, the President's approach enhances the Trust Fund's ability to contribute to the government's and the nation's capacity to meet its promises.

The legislation that we transmitted to Congress embodies this principle in specific rules. The legislation extends the discretionary spending caps and pay-as-you-go rules that have been very helpful in achieving fiscal discipline over the past decade. It also goes one step further, by creating a new point-of-order to protect the Social Security surplus.

The second principle is that the interest savings from the debt reduction coming from Social Security surpluses should be channeled into the Social Security Trust Fund. These transfers are the central link between our overall budget framework and Social Security reform. Essentially, we devote the savings we have earned from reducing one liability -- the federal debt held by the public -- to meeting another government liability, namely promised Social Security benefits.

According to the Social Security actuaries, the transfers we propose would extend the solvency of the Social Security system to 2050, compared with 2034 under current law. This approach of earmarking the interest savings from debt reduction can be distinguished from the lockbox proposals that have been discussed in Congress this year. These do not extend the solvency of Social Security by even one day -- since they do not direct those savings to Social Security and thereby help to prevent them from being used for other purposes

In considering these issues it is worth thinking about the steps that a private company would take to address a financial shortfall in its defined-benefit pension plan. Clearly, the firm would look at ways to modernize and update the pension plan. But if it were enjoying extraordinary profits, and expected to continue to do so, then its first step would be to devote some of those profits to meeting the shortfall in its pension plan.

In much the same way, we believe there needs to be broad-based and bipartisan reform of Social Security. But we also believe that our first step should be to use the opportunity presented by budget surpluses to strengthen the program's finances today

The *third* principle is that we should make provision for devoting the increased resources to Medicare that are likely to be necessary in the context of any responsible approach to assuring its future. Medicare has been a great American social policy success -- but there is now widespread agreement that the program requires basic changes if it is to continue that success in a new century. In fact, the Medicare trust fund is now projected to be exhausted by 2015, nearly two decades before the projected insolvency of the Social Security Trust Fund.

The reform of Medicare poses a wide range of difficult issues. The President has put forward a plan containing his proposals for modernizing Medicare and realizing the quality and cost advantages that increased competition within the system would offer. A number of other constructive reform proposals have emanated from Congress. But whichever route this country ultimately takes, most independent observers agree that even with reform, Medicare will require increased funding to extend substantially its solvency without damaging benefit cuts or tax increases. That is why we believe that we should combine reform with steps to assure the availability of increased resources for the Medicare system in the future.

The legislation that the President just submitted to Congress would reserve one-third of the projected surpluses from any use except for reform that extends the solvency of the Medicare program. To repeat, the President wants to work with Congress to achieve comprehensive Medicare reform, but we know that reaching an agreement on this complicated issue will not be a simple process. In the meantime, we should preserve the resources that will be needed to strengthen and modernize Medicare as outlined in the legislation that the President just submitted to Congress.

The fourth principle is that this nation's budget plans should be based on realistic discretionary spending plans. The discretionary caps have been very helpful in achieving fiscal discipline over the past decade. The President's plan extends them. But it would use some of the surplus, as part of a plan that extends Social Security solvency, to provide realistic levels of appropriations for the fulfillment of government's core functions.

This is a necessary and prudent response to the unrealistic spending levels envisioned, for example, in the current Congressional Budget resolution, which by 2009 would reduce nondefense discretionary spending by approaching 50 percent, assuming that defense were funded at the level requested by the President.

It is important, in considering the President's spending proposals, to remember that this is *not* a debate about making government bigger. It is about ensuring that government has the resources to fulfill its core functions. The executive branch non-postal federal civilian workforce has declined by about 16 percent since 1993 – representing more than 357,000 positions. Non-defense discretionary spending today is at its lowest level in 35 years. And for a family of four with median income, the burden of Federal income and payroll taxes is the lowest it has been in 20 years.

The President's plan would increase defense spending slightly in real terms, in order to ensure military readiness and an effective national defense. However, the plan would *reduce* inflation-adjusted nondefense spending, leaving it more than 10 percent below its current real level by 2009.

Overall, the growth of discretionary spending proposed in the President's plan would remain slightly below inflation as currently forecast. We believe that such cuts are feasible, if the spending is targeted at our critical needs. Deeper cuts, in our view, are not feasible if core government functions -- the services that every American taxpayer expects -- are to be maintained.

Some have said that any modest increase in discretionary spending is fiscally irresponsible. I would suggest that the opposite is true. The irresponsible course would be to build the nation's budget plans on the foundation of spending plans that we can safely predict will not be achieved.

As we have seen in this year's budget debate, unrealistic discretionary caps will be exceeded -- through emergencies that expand the term "emergency" well beyond its accepted meaning, or through other budgetary gimmicks. If we base large tax cuts today on the promise of unspecified deep cuts in future spending, we may create a situation in which the spending that ultimately occurs will lead to additional and unneeded government borrowing. The result would be to erode the enormous fiscal progress that this country has made -- and the enormous economic benefits that have come with that progress.

III. Broader Significance of the President's Plan and Challenges for the Future

Respecting the integrity of the Social Security trust fund; channeling the interest savings from debt reduction to the Social Security trust fund; making proper allowance for Medicare; and budgetary realism -- if we could agree to respect these four principles going forward it would make a major contribution to America's economic and fiscal future.

It would be an important step for our economic future because it would continue the paydown of our publicly-held national debt, with a projected elimination of that debt by 2015. We would establish the principle of using the Social Security surplus to pay down debt rather than financing other government activities. And we would free up substantial new resources for business investment and housing, further reducing interest rates and the cost of capital, and boosting productivity and American living standards.

Respecting those four principles would be an important step for our fiscal future because we would realistically provide funding to help us meet the existing obligations of the Federal government that are not yet funded. We would extend the solvency of Social Security by earmarking for the Social Security Trust Funds the savings gained from using Social Security surpluses to pay down the debt held by the public.

Thus, the principles embodied in the President's budget and Social Security plan can provide a crucial foundation for our long-term economic and fiscal future. But they are just that – a foundation, not a completed edifice. Going forward we would need to build on this foundation, because even after passing this plan, important national challenges would remain.

Notably:

- We would still need to increase personal retirement savings, especially for the 73 million American workers who do not participate in employer-sponsored pension plans. In 1994, less than half of all individuals aged 65 and over received any private pension benefits.

- We would also still need to make further reforms of both Social Security and Medicare. As I have mentioned, the President hopes that his comprehensive Medicare reform proposal could help to provide a basis for bipartisan discussions of this critical issue in the near future.

IV. Concluding Remarks

Mr. Chairman, as I have discussed, I believe that our strong economy and dramatically improving fiscal condition offer us an historic opportunity to address some of the core long-term challenges confronting our nation. Certainly, we may have very different views about how to respond to these challenges, but I hope we can all agree that this opportunity should not be wasted.

I look forward to working with you, Mr. Chairman, Mr. Ranking Member, and others in this committee and with others in Congress as we work to progress further on these critical issues in the months to come. Thank you. I would now welcome any questions.

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EMBARGOED UNTIL 10:00 A.M. EST
November 9, 1999

Written Statement for the Record

TREASURY DEPUTY SECRETARY STUART E. EIZENSTAT
PERMANENT SUBCOMMITEE ON INVESTIGATIONS
SENATE COMMITTEE ON GOVERNMENTAL AFFAIRS

I. Introduction

Madam Chairman, Ranking Member Levin, Members of the Subcommittee, I welcome this opportunity to submit this statement on money laundering and corruption issues. Your hearing on money laundering and private banking represents the culmination of a great deal of work by you and your staff over the past year. As I understand it, you will be hearing from a range of witnesses over the course of this hearing, concerning a number of specific matters alleging the abuse of private banking relationships by apparently corrupt foreign officials seeking to conceal their ill-gotten gains. Thus you have focused your efforts on the intersection of high-level government corruption and money laundering. Both of these issues present crucial law enforcement and regulatory challenges, and both raise significant foreign policy and national security implications.

Let me say at the outset that safeguarding the integrity of American and international financial institutions is an absolute priority for this Administration. Accordingly, as described below, the Treasury Department is engaged at many levels in the fight against corruption and money laundering. This engagement is reflected by our ongoing regulatory and enforcement initiatives to prevent, detect, and prosecute money laundering; our promotion of reforms in international financial institutions' lending programs; and our work with our G-7 colleagues and others to reform the global financial architecture.

In addition to these ongoing efforts, I am co-chairing with Deputy Attorney General Eric Holder an interagency task force to implement the National Money Laundering Strategy recently announced by Secretary of the Treasury Summers and Attorney General Reno. As we move to implement the Strategy, we are looking to learn new lessons, and to devise new policies to respond to changing circumstances. Accordingly, the Treasury Department has supported your investigative efforts over the past year, and we are very much looking forward to the public discussion of the results of those efforts in this hearing.

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My statement covers two topics: corruption, money laundering, and private banking; and the Administration's new National Money Laundering Strategy. As described below, we believe that private banking relationships are important, and we recognize that high net worth individuals have special banking needs. But we also recognize that private banking is particularly vulnerable to abuse by money launderers. A number of specific action items called for by the National Money Laundering Strategy – including, for example, a 90 day review of guidance to enhance bank scrutiny of potentially high risk accounts and the enhanced use of information processing technologies to uncover patterns of unlawful transactions from the data already collected -- address the subjects you are exploring in this hearing. I assure you that, as we move forward on those and other items, we will pay particular attention to addressing the vulnerabilities posed by the private banking business.

II. Corruption, Money Laundering, and Private Banking

First, I want to reiterate the reasons that this Administration has placed a high priority on fighting both corruption and money laundering. These issues are important domestically and internationally, and they are closely related to one another. Both public corruption and money laundering taint financial institutions and erode public trust in their integrity. In their extremes, public corruption and money laundering can undermine democratic institutions, and representative governments. Money laundering may be thought of as a corrupting influence on financial institutions and governments. In this age of rapidly advancing technology and globalization, public corruption and money laundering can affect trade flows and ultimately undermine financial stability. For this reason, both are ultimately matters of national security for the United States.

Public Corruption. These points were illustrated in hearings held by the House Banking and Financial Services Committee in September concerning allegations of crime and corruption in Russia and the alleged infiltration of Western financial institutions. Recent press accounts alleging public corruption by Russian officials dramatically illustrate these points. Unfortunately, the type of allegations addressed in the House hearings are not isolated to any one country. Large-scale corruption by high-ranking government officials has undermined the economic and social stability of a number of countries around the world. Systematic, unchecked depletion of assets by top government leaders diverts scarce resources from many of the world's poorest countries, and has crippled some of the most promising economies in the developing world, such as the former Zaire and Nigeria.

One of the principal obstacles we face in combating public corruption is the historical acceptance in the international business community of corrupt behavior by government officials. We tend to forget – since the United States enacted the Foreign Corrupt Practices Act over twenty years ago (which I helped draft for the Carter Administration) – that an international consensus about the dangers of public corruption is only just now forming. In some countries, for example, pending their full implementation of the OECD Anti-Bribery Convention, it is still possible for corporations to deduct foreign bribes on their tax returns. Although we generally understand what we mean by the term "public corruption," our understanding is by no means universally accepted. Thanks to the work of non-governmental organizations such as Transparency International, corruption issues have become more a subject of public discussion.

We have made significant progress in recent years. For example, it has now been nearly two years since the members of the Organization for Economic Cooperation and Development (OECD) concluded the OECD Anti-Bribery Convention, and the Vice President hosted a ground-breaking Anti-Corruption conference in February 1999. Since then, we have pressed, and will continue to press, for the complete ratification and implementation of the OECD Convention by all signatories. We hosted a U.S. – Africa Ministerial Conference with over 40 African nations, at which combating corruption was a central item on the agenda. I have worked with the Global Coalition for Africa, in which some dozen African countries have adopted comprehensive anti-corruption principles. In addition, the United States is working with its G-7 partners and others to coordinate anti-corruption efforts and assistance and to complete a WTO agreement on transparency in government procurement. We also are exploring the best ways to identify, block, and seize illicit funds gained through public corruption as well as other criminal acts.

There has been considerable progress over the past year or so within the international financial institutions. The International Monetary Fund (IMF) has developed a code of fiscal transparency, and has consistently supported open and transparent markets, price decontrol, and trade liberalization, each of which will reduce the opportunity for bribery and corruption. In specific programs with Thailand, Korea, and Indonesia, the IMF has insisted on full audits and has even suspended funding in response to substantial accusations of corruption. Both the IMF and the World Bank suspended assistance to Kenya because of pervasive corruption.

The World Bank is paying increased attention to the problems of corruption in its member countries. The Bank has developed programs to combat corruption problems in individual countries, initiatives to enhance transparency and accountability in public finances, and approaches to strengthen public institutions and the rule of law with regard to investment and property. The Bank has also developed new methodologies and techniques for analysis of the nature and extent of corruption in specific countries. These issues were the focus of attention at the international meetings of the IMF and World Bank in Washington in September.

Money Laundering. In many respects, our efforts to fight money laundering have progressed much further. Money laundering has been a separately punishable federal crime in the United States only since 1986, and our enforcement agencies vigorously investigate and prosecute violations. We also have had in place since the early 1970s – through the Bank Secrecy Act and its implementing regulations – a relatively well developed regulatory structure. This structure ensures that records are maintained and reports are filed that can be of use to investigators pursuing money laundering, tax evasion, and other financial crimes. Our regulatory regime is generally consistent with structures in place in many other countries around the world, thanks primarily to the efforts of the Financial Action Task Force (FATF) and other international bodies to push implementation of the FATF 40 Recommendations. Treasury's Financial Crimes Enforcement Network (FinCEN) has capably led the Treasury's efforts to coordinate and implement these efforts. But much work remains to be done.

In September, the Treasury and the Justice Departments released the first comprehensive National Money Laundering Strategy. The Strategy sets forth a broad-based domestic and international program to combat money laundering. As discussed more fully below, several of the action items are directed against the type of criminal activity that the Subcommittee has been investigating over the past year. The Strategy – as well as the testimony you will receive from officials representing the Office of the Comptroller of the Currency and the Board of Governors of the Federal Reserve System – demonstrates that we have been working on these issues for some time. The Strategy also demonstrates that we are taking concrete steps to address them.

Private Banking. The regulation and oversight of private banking – that is, the provision of financial services to high net worth individuals – bring together the issues of corruption and money laundering. The private banking business has long been recognized as having the potential to be particularly vulnerable to abuse by money launderers. GAO reports from June and October 1998 explored a range of issues relating to regulatory oversight of offshore private banking activities arising out of the allegations that Raul Salinas used Citibank's private banking services as a conduit to launder funds. As described below, issues raised by the private banking business will figure prominently in our implementation of a number of the priority action items called for in our National Money Laundering Strategy.

The bank supervisory agencies have already taken a number of steps, which I am sure you will hear about in some detail from other witnesses. The Treasury's Office of the Comptroller of the Currency (OCC), for example, has created a special group in its headquarters to focus on money laundering controls, and has moved to revise its bank examination procedures. The OCC has also instituted novel procedures – using the artificial intelligence capabilities of FinCEN and other internal lead-generating methods – to proactively identify institutions that pose particular money laundering risks. Over the past year, the OCC has conducted over ten targeted examinations of such institutions, using specially trained examiners. The OCC also responds to external notification – from law enforcement or other sources – with its specialized money laundering examination teams. Finally, the OCC has begun a general review of its examination procedures.

One theme that underlies these efforts – and the efforts of other bank regulators, notably the Federal Reserve Board -- is the need for banks involved in private banking to put in place appropriate policies and procedures in order to meet their obligations to investigate and report, if necessary, suspicious private banking activity. As we continue to work on this issue, we must strike the correct balance between protective regulations and the promotion of competitive commercial activity, and between customers' legitimate right to financial privacy and the need for government to be able to pierce the veil of secrecy to pursue criminals.

For all of these reasons, we welcome these hearings, and applaud the work that you and your staff have done to uncover particular problems and to frame them in a way that will help us move together toward appropriate solutions.

III. The National Money Laundering Strategy

In September, the Treasury and Justice Departments issued a National Money Laundering Strategy, marking a new stage in the government's coordinated effort to follow the money. The Strategy's ambitious agenda is built around four basic goals: (1) strengthening domestic law enforcement; (2) enhancing steps taken by financial institutions to prevent and detect money laundering; (3) partnering with state and local authorities; and (4) bolstering our efforts to have strong money laundering standards adopted – and adhered to – worldwide. Several actions set forth in the Strategy are particularly relevant to the subject of this hearing; many of these are proceeding on self-imposed deadlines to ensure that significant progress is made in short order.

First, we have convened a working group of federal bank regulators and law enforcement officials to determine what guidance would be appropriate to enhance bank scrutiny of certain transactions or patterns of transactions in potentially high-risk accounts. This working group is to complete its review within 90 days of the publication of the Strategy, and we intend to report on its findings in the second annual strategy report, which is due to the Congress on February 1, 2000. Financial industry officials are looking to us for guidance about how to comply with the duty of financial institutions and their employees to avoid becoming entangled in money laundering schemes, and we want to provide that guidance. Naturally, we want to balance concerns of efficiency and privacy with those of effective law enforcement.

Second, this review will be complemented by a determination by the working group as to what guidance would be appropriate to enhance the scrutiny of correspondent bank accounts in the United States maintained by certain offshore and other financial institutions that pose money laundering risks. This review, which also is due to complete its review within 90 days of the strategy's publication, will focus on steps needed to ensure that U.S. financial institutions obtain information about the identity of customers of certain correspondent banks. The working group will also pay attention to issues raised by the use of payable through accounts. As more effective mechanisms are devised to meet these goals, U.S. banks should be better able to detect deception by corrupt foreign officials.

Third, the federal bank supervisory agencies, in cooperation with the Department of the Treasury, will conduct a more general review of existing bank examination procedures relating to the prevention and detection of money laundering at financial organizations, to be completed in 180 days of the National Money Laundering Strategy's publication. The objectives of this review will be to determine whether current examination procedures are adequate to evaluate bank anti-money laundering measures and compliance with existing laws and regulations, and whether additional support from law enforcement officials can assist bank examiners in examining institutions for money laundering risks. I will ensure that this review takes full account of the results of the Subcommittee's investigation as discussed in this hearing.

The Strategy also calls for a series of steps to improve the government's performance in making use of information reported under the Bank Secrecy Act and in sharing with financial institutions the analysis of such information. In some cases, such sharing may involve issuance of guidance about emerging issues or strategies used by money launderers. In other cases, subject to the appropriate legal restrictions, more specific warnings may be generated. Once again, I will ask FinCEN and the law enforcement and regulatory communities to pay close attention to the results of the Subcommittee's investigation, and to apply the lessons learned from that investigation on a continuing basis.

Further, the Strategy calls for action on two important items pointedly directed at the fight against money laundering by corrupt foreign officials. The Department of Justice is leading the Administration's effort to enact legislation to enhance our ability to pursue criminal sanctions – including the seizure and forfeiture of assets – against corrupt foreign officials. Bribery of public officials and witnesses was included as a "specified unlawful activity" (or predicate) when the money laundering statute was first passed in 1986. But the statute limits our ability to bring money laundering charges, or to confiscate assets on behalf of foreign governments, in cases involving predicate crimes that violate foreign, but not U.S., law. The Money Laundering Act of 1999, which the Administration plans to submit to the Congress today, will include a provision enlarging the list of foreign crimes for which money laundering prosecutions can be brought in the U.S. when the proceeds of the crime are laundered in the U.S. This list of crimes will include "bribery of a public official, *or the misappropriation, theft, or embezzlement of public funds* by or for the benefit of a public official." If passed, this legislation will give us an important new tool to assist emerging democratic governments as they attempt to recover state assets misappropriated by corrupt officials of current or preceding regimes.

Finally, the Strategy notes that the United States will advocate that other nations include bribery as a serious offense for the purpose of their own anti-money laundering legislation. As you well know, the proceeds of large-scale public corruption – in the form of bribes or embezzlement – must, like any other ill-gotten gains, be laundered if they are to be secured and enjoyed by corrupt officials. And we have made significant progress in the international community toward universal enactment of so-called "serious crimes" money laundering legislation. An OECD working group has reported that it considers bribery as a serious offense for the purposes of money laundering legislation and has asked the FATF to review the issue with its membership. Last month, at their meeting in Moscow, the G-8 Justice and Interior Ministers agreed on the importance of extending predicate offenses of money laundering to bribery or corruption committed in violation of both domestic and foreign law.

Of course, the Money Laundering Strategy report calls for a host of other actions to improve our ability to combat money laundering. The Strategy recognizes the long-term commitment needed for the fight, but I want to assure you that we have mobilized our resources on a number of priority items in the short term.

IV. Conclusion

In closing, I want to thank you and the Subcommittee staff again for your hard work over the past year in exploring the vulnerability of private banking to abuse. You have performed an extremely important service in highlighting the important, but still not widely understood relationship between public corruption and money laundering. The Treasury Department is committed on an ongoing basis to devising and implementing effective measures to protect the U.S. financial system from abuse by corrupt public officials and international organized crime. We look forward to working closely with you and your staff in the future.

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EMBARGOED UNTIL 10 A.M.
November 9, 1999

Contact: Bill Buck
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PRESIDENT'S WORKING GROUP ON FINANCIAL MARKETS RELEASES OVER-THE-COUNTER DERIVATIVES REPORT

The President's Working Group on Financial Markets on Tuesday unanimously recommended changes to the Commodities Exchange Act that are designed to create legal certainty in the over-the-counter derivatives markets and reduce systemic risk.

"Our new financial system has to be based on old virtues," Treasury Secretary Summers, Chairman of the Working Group, said. "As we worked to clarify the legal framework for OTC derivatives, we were guided by time-tested principles of competition, efficiency and transparency. If enacted, these changes will strengthen the financial system by improving a segment of the market which helps American businesses to hedge and manage risk more effectively and reduces borrowing costs for both individuals and corporations."

As members of the President's Working Group on Financial Markets, the Treasury Secretary and the Chairmen of the Securities and Exchange Commission, the Commodities Futures Trading Commission and the Board of Governors of the Federal Reserve System, studied the existing regulatory framework, recent innovations, and the potential for future developments in the over-the-counter derivatives markets.

Among the report's recommendations are:

- Creating an exclusion from the CEA for swaps agreements that are bilateral agreements between eligible parties on a principal-to-principal basis. (The exclusion does not extend to agreements involving non-financial commodities with finite supplies).
  -- This recommendation provides greater legal certainty and removes doubts about enforceability, making the U.S. a more attractive derivatives market.

- Creating an exclusion from the CEA for electronic trading systems that limit participation to sophisticated parties trading for their own accounts. (Again, the exclusion does not apply to systems used to trade contracts that involve non-financial commodities with a finite supply.)
  --This recommendation promotes innovation, competition, efficiency, liquidity and transparency and encourages the development of electronic trading systems.

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- Removing legal impediments to the development of clearing systems for OTC derivatives, while requiring that such systems be subject to appropriate regulation.
  --This recommendation reduces systemic risk by encouraging appropriately regulated clearing for OTC derivatives.

- Clarifying the Treasury Amendment to enable the CFTC to address the problems associated with foreign currency "bucket shops" while excluding all other transactions in Treasury Amendment products from the CEA, unless they are conducted on an organized futures exchange.
  --This recommendation helps to create legal certainty and protects retail customers from unfair practices.

- Clarifying the exempt status of hybrid instruments that reference securities and modifying the CFTC's "exclusive jurisdiction" clause to prevent limitations on the authority of the SEC and the bank regulatory agencies with regard to hybrid instruments.
  --These recommendations, while technical in nature, enhance legal certainty by clarifying that hybrid instruments that reference securities can be exempted from the CEA and they resolve potential jurisdictional disputes between regulators by limiting the exclusive jurisdiction clause.

Additionally, the Working Group recommends that Congress clarify the CFTC's authority to provide appropriate regulatory relief for exchange-traded derivatives when the CFTC deems such relief to be consistent with the public interest. The report also suggests approaches to other related issues including single stock futures, enhanced reporting authority for unregulated affiliates of broker-dealers, and close-out netting provisions in bankruptcy and bank insolvency law.

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FOR IMMEDIATE RELEASE
November 9, 1999

STATEMENT BY TREASURY SECRETARY LAWRENCE H. SUMMERS

Michel Camdessus has served the members of the International Monetary Fund with great distinction during his time as the longest serving Managing Director. With brave and skillful leadership, he steered the IMF through challenges from the 1980s debt crisis to the transformation of former communist economies and the Asian financial crisis. Throughout these times, Mr. Camdessus has reinforced the strengths of the institution and steadfastly protected the interests of its members and the international monetary and financial system as a whole. Most recently, we in the United States have deeply appreciated his leadership in championing the HIPC initiative and working tirelessly to secure its financing.

An international institution charged with these vital responsibilities requires a leader of great experience, judgment, and talent. Michel Camdessus proved to be such a leader.

The Treasury Department will miss his many contributions to the international community, and we wish him well in his future endeavors.

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Weekly Release of U.S. Reserve Assets

November 10, 1999

The Treasury Department today released U.S. reserve assets data for the week ending November 5, 1999.

As this table indicates, U.S. reserve assets totaled $72,644 million as of November 5, 1999, as compared with $73,228 million as of October 29, 1999.

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

1999 *Week Ending*	Total Reserve Assets	Gold Stock 1/	Special Drawing Rights 2/	Foreign Currencies 3/ ESF	SOMA	Reserve Position in IMF 2/
October 29, 1999	**73,228**	11,047	10,232	16,187	16,190	19,571
November 5, 1999	**72,644**	11,047	*10,204*	15,936	15,939	*19,517*

1/ Gold stock is valued monthly at $42.2222 per fine troy ounce. Values shown are as of August 31, 1999. The August 31, 1999 value was $11,046 million.

2/ SDR holdings and the reserve position in the IMF are based on IMF data and valued in dollar terms at the official SDR/dollar exchange rate. Consistent with current reporting practices, IMF data for October 29, 1999 are final. Data for SDR holdings and the reserve position in the IMF shown as of November 5, 1999 (in italics) reflect preliminary adjustments by the Treasury to the October 29, 1999 IMF data.

3/ Includes holdings of the Treasury's Exchange Stabilization Fund (ESF) and the Federal Reserve's System Open Market Account (SOMA). These holdings are valued at current market exchange rates or, where appropriate, at such other rates as may be agreed upon by the parties to the transactions.

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For Immediate Release
November 9, 1999

Contact: Public Affairs
(202) 622-2960

STATEMENT BY TREASURY SECRETARY LAWRENCE H. SUMMERS

We have been following closely the hearings on money laundering and corruption being held today in the Senate's Permanent Subcommittee on Investigations. These hearings -- addressing the vulnerability of private banking to abuse by money launderers -- underscore the importance of this Administration's commitment to the fight against money laundering. That commitment was embodied most recently in the first-ever National Money Laundering Strategy that Attorney General Reno and I announced in late September. The Administration is actively working to implement the Strategy's objectives.

The issues raised in today's hearings are at the core of our National Strategy. Indeed, as Deputy Secretary Eizenstat makes clear in testimony submitted to the Subcommittee today, our National Strategy establishes a senior working group to determine, before the end of this year, what kind of enhanced bank scrutiny is needed for high-risk accounts – precisely the kind of issue raised by today's hearings.

In addition, the Administration tomorrow will follow through on a separate action item outlined in our Strategy by submitting legislation – the Money Laundering Act of 1999 – to bolster our domestic and international enforcement powers.

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For Immediate Release
November 9, 1999

Contact: Public Affairs
(202) 622-2960

TREASURY AND JUSTICE ANNOUNCE MONEY LAUNDERING LEGISLATION

Treasury Deputy Secretary Stuart Eizenstat and Assistant Attorney General Eric Holder will announce the Money Laundering Legislation of 1999 at a press roundtable on **Wednesday, November 10 at 10 a.m. in Main Treasury's Diplomatic Reception Room 3315 at 1500 Pennsylvania Avenue, N.W.**

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

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PUBLIC DEBT NEWS

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

)R IMMEDIATE RELEASE
›vember 09, 1999

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 5-YEAR NOTES

terest Rate:	5 7/8%	Issue Date:	November 15, 1999
ries:	H-2004	Dated Date:	November 15, 1999
SIP No:	9128275S7	Maturity Date:	November 15, 2004
RIPS Minimum:	$1,600,000		

High Yield: 5.888% Price: 99.944

All noncompetitive and successful competitive bidders were awarded :urities at the high yield. Tenders at the high yield were lotted 90%. All tenders at lower yields were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 27,257,700	$ 14,488,200
Noncompetitive	512,560	512,560
PUBLIC SUBTOTAL	27,770,260	15,000,760 1/
Federal Reserve	2,189,968	2,189,968
Foreign Official Inst.	1,200,000	1,200,000
TOTAL	$ 31,160,228	$ 18,390,728

Median yield 5.870%: 50% of the amount of accepted competitive tenders tendered at or below that rate. Low yield 5.810%: 5% of the amount accepted competitive tenders was tendered at or below that rate.

-to-Cover Ratio = 27,770,260 / 15,000,760 = 1.85

Awards to TREASURY DIRECT = $332,539,000

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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 10 A.M. EST
November 16, 1999

Contact: Una Gallagher
(202) 622-2960

TREASURY UNVEILS NEW $10 AND $5 BILLS
Redesigned notes are latest in series to add anti-counterfeiting features

Treasury Secretary Lawrence H. Summers, Treasurer Mary Ellen Withrow and Secret Service Director Brian L. Stafford on Tuesday unveiled the redesigned $10 and $5 notes that include new and modified security features to deter counterfeiting of U.S. currency.

Incorporating security features similar to those added to the new $100s, $50s and $20s, the new notes have been designed to stay a step ahead of advances in reprographic technology.

"The public is our first line of defense against counterfeiting," Secretary Summers said. "If everyone checks the money that passes through their hands, it will put counterfeiters out of business. And that is the goal of redesigning our currency."

In addition to unveiling the new notes, the Treasury recognized three retail-store employees with "Exceptional Public Service" awards for having intercepted counterfeit notes at work. Because of their knowledge of the new features, their detection of the bogus notes resulted in the arrest of a total of seven individuals and the seizure of nearly $90,000 in counterfeit notes by the United States Secret Service. They received their awards during the unveiling ceremony in the Diplomatic Reception Room at the Treasury Department.

The retail employees honored by Secretary Summers are: Zera Frazier-Bey, 17, of Kansas City, MO, who detected counterfeit currency while working at a McDonalds drive-thru window; Burnetta Travis, 41, of Gulfport, MS, who detected counterfeit currency while working at a Wal-Mart cash register; and Kim Welsh, 26, of Fairfax, VA, who detected counterfeit currency while working as an assistant manager at a Sam Goody's store.

The new series 1999 notes will be issued toward the middle of 2000. The Series 1996 $100 note was issued in March 1996, the redesigned $50 note in October 1997 and the $20 note in September 1998. No decision has been made whether to redesign the $1 note.

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*U.S. Government Printing Office 1998 - 619-559

The new $10 and $5 will replace the older notes gradually. There will be no recall and no devaluation of any U.S. currency. The United States always honors its currency at full face value, no matter how old. More than $500 billion worth of U.S. currency is in circulation around the globe.

Through a comprehensive public education effort, Treasury, the Federal Reserve, the Secret Service and the Bureau of Printing and Engraving expect to provide millions of bank tellers, retailers and other cash handlers with printed informational materials and will offer training videos and CD-Roms. Because the $10 and $5 notes are widely used in many types of vending and other machines that disperse currency, additional emphasis will be placed on working with manufacturers and distributors of these devices to ensure a smooth transition when the new notes are issued. In addition, special seminars will be conducted for cash handlers to learn how they can and should discourage counterfeiting by closely examining all the notes they handle.

Like the other redesigned notes, the new $10 and $5 notes will include a large dark numeral on a light background on the back of the note that will make it easier for people with low vision to identify the denomination. Other features include: a larger slightly off-center portrait; a watermark depicting the same historical figure as the engraved portrait; fine-line printing in the background of the portrait and the picture on the back; and, on the $10 note a color-shifting ink that alternates between green and black when viewed at different angles.

Both notes contain a polymer thread embedded in the paper uniquely positioned for easy authentication. With the $10 note, the thread is to the right of the portrait and will glow white under ultraviolet light. In the $5 bill, the thread is to the left of the portrait and will glow blue when held under an ultraviolet light. In addition, the thread on the $10 note reads "USA TEN" and a flag can also be seen from both sides when held up to a light source. The number "10" appears in the star field of the flag.

The $5 note contains the words "USA FIVE" and a flag can be seen from both sides of the note when held up to a bright light. The number "5" appears in the star field of the flag.

Enlarged replicas of both currency notes depicting the face and back will be available for photographs throughout the day. For additional information on the new currency visit the Treasury web site at _www.moneyfactory.com._

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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
November 09, 1999

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 52-WEEK BILLS

Term:	363-Day Bill
Issue Date:	November 12, 1999
Maturity Date:	November 09, 2000
CUSIP Number:	912795EH0

High Rate: 5.170% Investment Rate 1/: 5.471% Price: 94.787

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 45%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 27,999,050	$ 8,394,800
Noncompetitive	725,625	725,625
PUBLIC SUBTOTAL	28,724,675	9,120,425 2/
Foreign Official Refunded	884,000	884,000
SUBTOTAL	29,608,675	10,004,425
Federal Reserve	4,540,000	4,540,000
Foreign Official Add-On	904,000	904,000
TOTAL	$ 35,052,675	$ 15,448,425

Median rate 5.160%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 5.080%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 28,724,675 / 9,120,425 = 3.15

1/ Equivalent coupon-issue yield.
2/ Awards to TREASURY DIRECT = $548,500,000

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED UNTIL 11:00 A.M. EST
Text as Prepared for Delivery
November 10, 1999

TREASURY ACTING ASSISTANT SECRETARY FOR TAX POLICY JONATHAN TALISMAN TESTIMONY BEFORE HOUSE COMMITTEE ON WAYS AND MEANS

Mr. Chairman, Mr. Rangel, and distinguished Members of the Committee:

Thank you for giving me the opportunity to discuss the problem of corporate tax shelters with you today. The Committee on Ways and Means has reacted quickly with legislation as specific corporate tax shelters come to light. As you mentioned, Mr. Chairman, the Committee in recent years has acted to close down about $50 billion in tax shelters. Unfortunately, based on all the indications we see, there is an increasing number of avoidance transactions being undertaken, despite your willingness to enact legislation to stop particular schemes as they are uncovered. Consequently, we are here before you today in support of legislation to deter corporate tax shelter activity on a more comprehensive, before-the-fact basis.

The Treasury Department, in addition to many others, including the American Bar Association, the New York State Bar Association and the staff of the Joint Committee on Taxation, has expressed concerns about the proliferation of corporate tax shelters. These concerns range from the short-term revenue loss to the tax system, to the potentially more troubling long-term effects on our voluntary income tax system. In its FY 2000 Budget, released in February of this year, the Administration made several proposals to inhibit the growth of corporate tax shelters.

In July of this year, the Treasury Department issued its White Paper, *The Problem of Corporate Tax Shelters: Discussion, Analysis and Legislative Proposals*. This report discussed more fully the reasoning underlying the Budget proposals relating to corporate tax shelters, provided a description and analysis of the comments on the Budget proposals, and provided refinements to those proposals.

Since the issuance of our White Paper, there have been some important developments regarding corporate tax shelters, including the issuance of the staff of the Joint Committee on Taxation's study of present-law penalty and interest provisions, as well as some important court

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decisions. With these developments in mind, I would like to emphasize the following points in my testimony today.

First, corporate tax shelters continue to be a substantial and ongoing problem. While Congress, the Treasury Department and the Internal Revenue Service take action to stop particular transactions as they are uncovered, many abusive transactions remain undiscovered and numerous new transactions are created all the time.

Second, the current *ad hoc* and piecemeal approach to addressing corporate tax shelters is inadequate. The current system is costly and inefficient. Admittedly, recent court decisions[1] denying the purported tax benefits of certain shelter transactions are important. However, these decisions are after-the-fact actions against shelters — they do not prevent the design, marketing, and implementation of new and different shelters. Furthermore, even though Congress has enacted certain legislative changes curbing certain types of shelters, these statutory prohibitions can sometimes be avoided by making certain adjustments to a transaction to avoid the impact of the revised statutory provisions. A global legislative solution is needed to prevent abusive, tax-engineered transactions before they occur. The Treasury Department believes this global solution should include four parts: increased disclosure, changes to the substantial understatement penalty, codification of the economic substance doctrine and sanctions on other parties to the transaction.

Third, while increased disclosure and changes to the penalty regime are necessary to uncover transactions and change the cost/benefit analysis of entering into corporate tax shelters, these remedies are not enough. Accordingly, the Treasury Department continues to believe that it is necessary to codify the economic substance doctrine, thus requiring taxpayers to perform a careful analysis of the pre-tax effects of a potential transaction before they enter into it. The Treasury Department's proposed substantive provision is intended to be a coherent standard derived from the economic substance doctrine as enunciated in a body of case law to the exclusion of less developed, inconsistent decisions. Codification of the doctrine, while not creating a new doctrine, would create a consistent standard so that taxpayers may not choose between the conflicting decisions to support their position. Codification would isolate the doctrine from the facts of the cases so that taxpayers could not simply distinguish the cases based on the facts.

Fourth, there are substantial similarities between the Treasury Department's proposals and other proposals to curb corporate tax shelters. For example, the staff of the Joint Committee on Taxation agrees that there should be increased disclosure by participants, increased penalties on understatements attributable to undisclosed transactions and tightening of the reasonable cause exception, and sanctions on other parties to the transaction. As discussed more fully in the White

[1] See, e.g., *Compaq Computer Corp. v. Comm.*, 113 T.C. No. 17 (1999); *IES Industries v. U.S.*, No. C97-206 (N.D. Iowa 1999); *Winn-Dixie Stores, Inc. v. Comm.*, 113 T.C. No. 21 (1999); *Saba Partnership v. Comm.*, T.C. Memo 1999-359 (1999).

Paper, the American Bar Association and the New York State Bar Association proposals contain several elements similar to those in the Administration's proposal. Finally, H.R. 2255, introduced by Mr. Doggett, also contains an approach similar to the Administration's proposal, including the codification of the economic substance doctrine. We commend Mr. Doggett for his leadership.

Fifth, the proposed legislation would be inadequate without effective enforcement. The Internal Revenue Service is undergoing a substantial restructuring. This restructuring will concentrate IRS resources relating to corporate tax shelters, enabling it to identify, focus on, and coordinate its efforts against corporate tax shelters in a more efficient manner, while instituting and maintaining appropriate taxpayer safeguards. The enactment of corporate tax shelter legislation, combined with the efforts of the restructured IRS, will deter abusive transactions before they occur and uncover and stop these transactions to the extent they continue to occur.

The balance of my testimony will elaborate on these points.

Reasons for concern

First, corporate tax shelters are designed to, and do, substantially reduce the corporate tax base. Moreover, corporate tax shelters breed disrespect for the tax system — both by the parties who participate in the tax shelter market and by others who perceive unfairness. A view that well-advised corporations avoid their legal tax liabilities by engaging in tax-engineered transactions may cause a "race to the bottom." The New York State Bar Association recently noted this "corrosive effect" of tax shelters: "The constant promotion of these frequently artificial transactions breeds significant disrespect for the tax system, encouraging responsible corporate taxpayers to expect this type of activity to be the norm, and to follow the lead of other taxpayers who have engaged in tax advantaged transactions." If unabated, this will have long-term consequences to our voluntary tax system far more important than the revenue losses we currently are experiencing in the corporate tax base.

Finally, significant resources — both in the private sector and the government — are currently being wasted on this uneconomic activity.[2] Private sector resources used to create, implement and defend complex sheltering transactions are better used in productive activities. Corporations distort their business decisions to take advantage of tax shelter opportunities. Similarly, the Congress (particularly the tax-writing committees and their staffs), the Treasury Department, and the IRS must expend significant resources to address and combat these transactions.

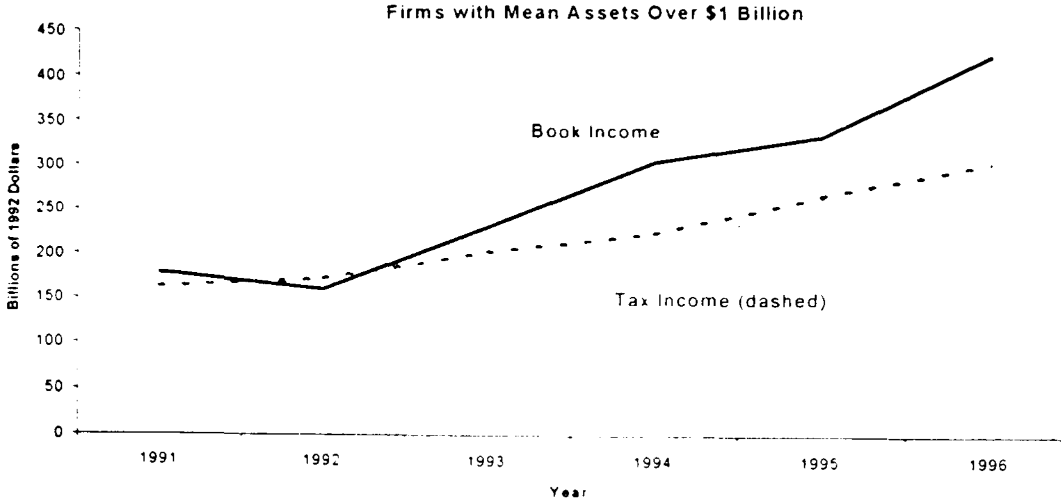
[2] As Peter Cobb, former Deputy Chief of Staff of the Joint Committee on Taxation recently stated: "You can't underestimate how many of America's greatest minds right now are being devoted to what economists would all say is totally useless economic activity."

Corporate tax shelters and the corporate tax base

Some have argued that the growth of corporate income tax receipts demonstrates that corporate tax shelters cannot be a problem. Of course, the size of the problem is not indicated by the *amount* of corporate tax receipts, which vary over time for a number of reasons, but by the *difference* between actual tax payments and those that would be remitted absent corporate tax shelters. That difference is impossible to measure directly, but the increasing difference between the income taxpayers report on their corporate tax forms (taxable income) and the income they report to shareholders (book income) appears to be consistent with the increasing use of corporate tax shelters.

One feature of many tax shelters is that they reduce taxable income and taxes without reducing book income. Corporate taxpayers report their book income on Schedule M-1 of Form 1120. Such data show that the difference between book income and taxable income for large corporations (average assets greater than $1 billion) increased between 1991 and 1996.[3] Current income reported on corporate tax returns (total receipts less total deductions) represented a much

Figure 1.
Book and Tax Corporate Income
Firms with Mean Assets Over $1 Billion



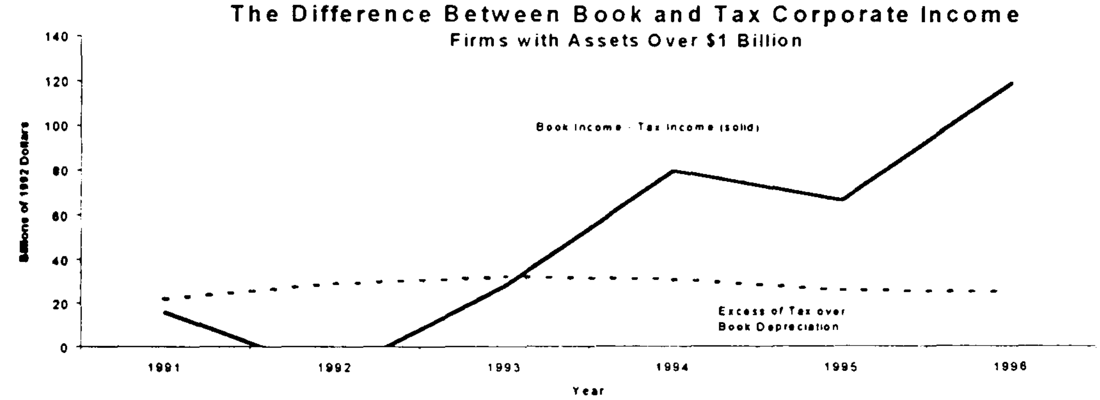
Book Income = After-tax book income from Schedule M-1 + Federal taxes - tax exempt interest
Tax Income = Total Receipts - Total Deductions
Corporations excluding S corporations, RICs, REITs, and Foreign Corporations
Source: Internal Revenue Service, Statistics of Income

[3] All estimates are based on a balanced panel of 811 corporations with mean asset size in excess of $1 billion, in 1992 dollars, over the years 1991 through 1996. Corporate tax data are only available through 1996. We did not use data before 1991 for this comparison because depreciation data from Schedule M-1 are not available before 1991. In addition, the detailed book data from before 1991 seem inconsistent with the post-1990 data, perhaps because of an accounting method change.

smaller share of book income (calculated as book income after tax, plus Federal taxes, less tax-exempt income) in 1996 than in the early 1990s. (See Figure 1.) Thus, even though corporate income reported on tax returns has increased markedly in the 1990s, book income has increased even faster. It is unclear how much of the divergence between tax and book income reflects tax shelter activity, but the data are clearly consistent with other evidence that the problem is significant.

Book and tax measures of income can diverge for many reasons that are unrelated to tax shelters. For example, increases in the rate of new investment can cause book and taxable income to diverge because tax depreciation is accelerated compared with book depreciation. But depreciation does not seem to be a significant factor. Figure 2 shows that the difference due to depreciation has declined over the last several years while the difference between book and tax income continues to climb. Hence, removing the depreciation discrepancy would actually make the proportional gap between the two income measures larger in recent years.[4]

Figure 2.
The Difference Between Book and Tax Corporate Income
Firms with Assets Over $1 Billion



Book Income = After-tax book income from Schedule M-1 + Federal taxes - tax exempt interest
Tax Income = Total Receipts - Total Deductions
Corporations excluding S corporations RICs REITs and Foreign Corporations
Source Internal Revenue Service Statistics of Income

Need for legislation

To date, most attacks on corporate tax shelters have targeted specific transactions and have occurred on an *ad hoc*, after-the-fact basis — through legislative proposals, administrative

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[4] Other factors contribute to the gap between book and tax measures of income, including 1) the differential impact of the business cycle on the two measures, 2) increases in foreign based income that are reflected in book but not tax income and 3) differences in accounting treatment for stock options and their increased importance as a component of executive and employee compensation.

guidance, and litigation. In the past few years alone, Congress, the Treasury Department and the IRS have taken a number of actions to address specific corporate tax shelters. These include:

1. Two provisions enacted in 1996 and 1997 to prevent the abuse for tax purposes of corporate-owned life insurance (COLI).[5] Collectively, these two provisions were estimated by the Joint Committee on Taxation to raise over $18 billion over 10 years. As the then Chief of Staff of the Joint Committee on Taxation stated: "When you have a corporation wiring out a billion dollars of premium in the morning and then borrowing it back by wire in the afternoon and instantly creating with each year another $35 million of perpetual tax savings, that's a problem.... I think we were looking at a potential for a substantial erosion of the corporate tax base if something hadn't been done."[6]

2. Legislation enacted late last year to eliminate the ability of banks and other financial intermediaries to avoid corporate-level tax through the use of "liquidating REITs."[7] The Treasury Department's Office of Tax Analysis (OTA) estimated that eliminating this one tax shelter product alone would save the tax system approximately $34 billion over the next ten years.

3. The recent IRS ruling[8] addressing so-called lease-in, lease-out transactions, or "LILO" schemes. Like COLI, these transactions, through circular property flows and cash flows, offered participants millions of dollars in tax benefits with no real economic substance or risk. Based on the transactions we have been able to identify to date, OTA estimates that eliminating this tax shelter saved $10.5 billion over ten years.

4. Legislation signed into law on June 25, 1999, aimed at section 357(c) basis creation abuses.[9] In these transactions, taxpayers exploited the concept of "subject to" a liability and claimed increases in the bases of assets that resulted in bases far in excess of the assets' values.

5. Proposed regulations[10] addressing fast-pay preferred stock transactions. These financing transactions purportedly allowed taxpayers to deduct both principal and interest. It was

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[5] Pub. L. No. 104-191, § 501 (1996); Pub. L. No. 105-34, § 1084 (1997).

[6] Kenneth Kies, Transcript of Federal Bar Association's Fourth Invitational Biennial Conference on the Tax Legislative Process, reprinted in 97 Tax Notes Today 21-38 (Jan. 31, 1997).

[7] Pub. L. No. 105-277, § 3001(a) (1998).

[8] Rev. Rul. 99-14, 1994-14 I.R.B. 3.

[9] Pub. L. No. 106-36, § 3001 (1999).

[10] Prop. Reg. § 1.7701(l)-3.

reported that one investment bank created nearly $8 billion of investments in a few months.

6. Notice 98-5[11] dealing with foreign tax credit abuses.

7. The Government's victories in several important corporate tax shelter cases — *ACM Partnership v. Commissioner*[12] and *ASA Investerings Partnership v. Commissioner,*[13] and those cases mentioned in footnote one of this testimony.

Addressing corporate tax shelters on a transaction-by-transaction, *ad hoc* basis, however, has substantial defects. First, because it is not possible to identify and address all (or even most) current and future sheltering transactions, this type of transaction-by-transaction approach is inadequate. There will always be transactions that are unidentified or not addressed by the legislation. As Treasury Secretary Lawrence H. Summers said: "One is reminded of painting the Brooklyn Bridge: no sooner is one section painted over, than another appears needing work. Taxpayers with an appetite for corporate tax shelters will simply move from those transactions that are specifically prohibited by the new legislation to other transactions the treatment of which is less clear."[14]

Second, addressing tax shelters on a piecemeal basis complicates the tax law. In the past few years alone, Congress has passed numerous provisions to prevent specific tax shelter abuses. The layering of provision upon provision may lead one to believe that there is a rule for every situation and thus what is not specifically proscribed is, by negative inference, allowed. In time these specific rules themselves are used in unintended ways to create corporate tax shelters.[15]

Third, a legislative strategy that deals with tax shelter transactions on a piecemeal basis calls into question the viability of current rules and standards, particularly the common law tax doctrines such as sham transaction, business purpose, economic substance and substance-over-form. Finally, reliance on a transaction-by-transaction legislative approach to corporate tax shelters may embolden some promoters and participants to rush shelter products to market on the assumption that any Governmental reaction would be applied only on a prospective basis.

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[11] 1998-3 I.R.B. 49

[12] 73 T.C.M. (CCH) 2189 (1997), aff'd in part, rev'd in part, 157 F.3d 231 (3d Cir. 1998), cert. denied, 119 S.Ct. 1251 (1999).

[13] 76 T.C.M. (CCH) 325 (1998)

[14] Lawrence H. Summers, "A Better Tax Service and a Better Tax System," Tax Executives Institute, March 22, 1999.

[15] So far this year, we have shut down so-called "chutzpah trusts" which were similar to a structure shut down by Congress in 1997 and we are now hearing about "son of LILO" transactions and permutations of the section 357(c) product.

We believe that a more comprehensive approach to corporate tax shelters is needed. In developing such an approach in the President's FY 2000 Budget and the Treasury Department's White Paper, we examined characteristics of known corporate tax shelters.

Common characteristics

Because corporate tax shelters take many different forms and utilize many different structures, they are difficult to define with a single formulation. A number of common characteristics, however, can be identified that are useful in crafting an approach to solving the corporate tax shelter problem.

Lack of economic substance —Professor Michael Graetz recently defined a tax shelter as "a deal done by very smart people that, absent tax considerations, would be very stupid."[16] This definition highlights one of the most important characteristics common to most corporate tax shelters — the lack of any significant economic substance or risk to the participating parties. Through hedges, circular cash flows, defeasements and the like, the participant in a shelter is insulated from any significant economic risk.

Inconsistent financial accounting and tax treatments — There is a current trend among public companies to treat corporate in-house tax departments as profit centers that strive to keep the corporation's effective tax rate (i.e., the ratio of corporate tax liability to book income) low and in line with that of competitors. Accordingly, in many recent corporate tax shelters involving public companies, the financial accounting treatment of the shelter item has been inconsistent with the claimed Federal income tax treatment.

Tax-indifferent parties — Many recent shelters have relied on the use of "tax-indifferent" parties — such as foreign or tax-exempt entities — who participate in the transaction in exchange for a fee to absorb taxable income or otherwise deflect tax liability from the taxable party.

Marketing activity — Promoters often design tax shelters so that they can be replicated multiple times for use by different participants, rather than to address the tax planning issues of a single taxpayer. This allows the shelter "product" to be marketed and sold to many different corporate participants, thereby maximizing the promoter's return from its shelter idea.

Secrecy — Similar to marketing, maintaining secrecy of a tax shelter transaction helps to maximize the promoter's return from its shelter idea — it prevents expropriation by others and it protects the efficacy of the idea by preventing or delaying discovery of the idea by the Treasury Department and the IRS. In the past, many promoters have required prospective participants to

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16 See Tom Herman, Tax Report, Wall St. J. at A-1 (Feb. 10, 1999).

sign a non-disclosure agreement that provides for large payments for any disclosure of the "proprietary" advice.

Contingent or refundable fees and rescission or insurance arrangements — Corporate tax shelters often involve contingent or refundable fees in order to reduce the cost and risk of the shelter to the participants. In a contingent fee arrangement, the promoter's fee depends on the level of tax savings realized by the corporate participant. Some corporate tax shelters also involve insurance or rescission arrangements. Like contingent or refundable fees, insurance or rescission arrangements reduce the cost and risk of the shelter to the participants.

High transaction costs — Corporate tax shelters carry unusually high transaction costs. For example, the transaction costs in the *ASA Investerings Partnership* case ($24,783,800) were approximately 26.5 percent of the purported tax savings (approximately $93,500,000).

Administration proposals

In its FY 2000 Budget, the Administration made several proposals designed to inhibit the growth of corporate tax shelters. These proposals build upon the common characteristics of corporate tax shelters described above and focus on the following areas:

(1) increasing disclosure of corporate tax shelter activities,

(2) increasing and modifying the penalty relating to the substantial understatement of income tax,

(3) codifying the economic substance doctrine, and

(4) providing consequences to all the parties to the transaction (e.g., promoters, advisors, and tax-indifferent, accommodating parties)

Increasing disclosure

Greater disclosure of corporate tax shelters would aid the IRS in identifying corporate tax shelters and would therefore lead to better enforcement by the IRS. Also, greater disclosure likely would discourage corporations from entering into questionable transactions. The probability of discovery by the IRS should enter into a corporation's cost/benefit analysis of whether to enter into a corporate tax shelter.

In order to be effective, disclosure must be both timely and sufficient. In order to facilitate examination of a particular taxpayer's return with respect to a questionable transaction, the transaction should be prominently disclosed on the return. Moreover, because corporate tax returns may not be examined for a number of years after they are filed, an "early warning" system should be required to alert the IRS to tax shelter "products" that may be promoted to, or entered into by, a number of taxpayers. Disclosure should be limited to the factual and legal essence of the transaction to avoid being overly burdensome to taxpayers.

Disclosure would be required if a transaction has certain of the objective characteristics identified above that are common in many corporate tax shelters. The Treasury Department believes that two forms of disclosure are necessary. Disclosure would be made on a short form separately filed with the National Office of the IRS. Promoters would be required to file the form within 30 days of offering the tax shelter to a corporation. Corporations entering into transactions requiring disclosure would file the form by the due date of the tax return for the taxable year for which the transaction is entered into (unless the corporation had actual knowledge that the promoter had filed with respect to the transaction) and would include the form in all tax returns to which the transaction applies. The form would require the taxpayer to provide a description of the characteristics that apply to the transaction and information similar to the information in the ABA disclosure proposal. The form should be signed by a corporate officer who has, or should have, knowledge of the factual underpinnings of the transaction for which disclosure is required. Such officer should be made personally liable for misstatements on the form, with appropriate penalties for fraud or gross negligence and the officer would be accorded appropriate due process rights.

Substantial understatement penalty

In order to serve as an adequate deterrent, the risk of penalty for corporations that participate in corporate tax shelters must be real. The penalty also must be sufficient to affect the cost/benefit analysis that a corporation considers when entering into a tax shelter transaction.

The Treasury Department believes that the substantial understatement penalty imposed on understatements of tax attributable to corporate tax shelters should be greater than the penalty generally imposed on other understatements. This view is shared by the staff of the Joint Committee on Taxation, the ABA, the NYSBA and others. Thus, to discourage the use of shelters, the Treasury Department would double the current-law substantial understatement penalty rate to 40 percent for corporate tax shelters. To encourage disclosure, the penalty rate would be reduced to 20 percent if the taxpayer files the appropriate disclosures.

In the original Budget proposal, the Administration provided that the rate could not be further reduced below 20 percent or eliminated by a showing of reasonable cause (i.e., the penalty would be subject to a strict liability standard). Although one may rhetorically question whether there ever is any reasonable cause for entering into a corporate tax shelter transaction, many commentators have criticized the proposed elimination of the reasonable cause exception for corporate tax shelters. These commentators cited the potentially vague definitions of corporate tax shelter and tax avoidance transaction,[17] the allowance of a reasonable cause exception for

[17] These criticisms were addressed by the Treasury Department by modifying the definition of these terms.

other penalties, and basic fairness for opposing a "strict liability" penalty. The Treasury Department still believes that the penalty structure set forth in the Administration's FY 2000 Budget is appropriate. However, in light of the comments received, the Treasury Department believes that consideration should be given to reducing or eliminating the substantial understatement penalty where the taxpayer properly discloses the transaction and the taxpayer has a reasonable belief that it has a strong chance of sustaining its tax position. In addition, because many commentators believe that taxpayers are either ignoring or circumventing the requirements of Reg. § 1.6664-4 as to what constitutes reasonable cause, these requirements would be codified to heighten visibility and strengthened to the extent necessary.

Under the Treasury Department's modified approach, a strengthened reasonable cause standard could be used to reduce or eliminate the substantial understatement penalty if the taxpayer also properly disclosed the transaction in question, even if the transaction ultimately is deemed to be a corporate tax shelter. This limited exception would encourage disclosure and would alleviate some taxpayer concerns with respect to the definition of corporate tax shelter.

Finally, as discussed below, fears that the IRS may abuse the potential availability of increased substantial understatement penalties would be addressed by establishing procedures that would enhance issue escalation and facilitate consistent and centralized resolution of such matters.

Codify the economic substance doctrine

As evidenced by the comments from the ABA, AICPA, NYSBA, and others, corporate tax shelters are proliferating under the existing legal regime. This proliferation results, in part, because discontinuities in objective statutory or regulatory rules can lead to inappropriate results that have been exploited through corporate tax shelters. Current statutory anti-abuse provisions are limited to particular situations and are thus inapplicable to most current corporate tax shelters. Further, application of existing judicial doctrines has been inconsistent over time, which encourages the most aggressive taxpayers to pick and choose among the most favorable court opinions.

The current piecemeal approach to addressing corporate tax shelters has proven untenable, as (1) policymakers do not have the knowledge, expertise and time to continually address these transactions; (2) adding more mechanical rules to the Code adds to complexity, unintended results, and potential fodder for new shelters, (3) the approach may reward taxpayers and promoters who rush to complete transactions before the anticipated prospective effective date of any reactive legislation; and (4) the approach results in further misuse and neglect of common law tax doctrines. Thus, the Treasury Department believes that a codification of the economic substance doctrine is necessary in order to curb the growth of corporate tax shelters. While increased disclosure and changes to the penalty regime are necessary to escalate issues and change the cost/benefit analysis of entering into corporate tax shelters, these remedies are not enough if taxpayers continue to believe that they will prevail on the underlying substantive issue.

The centerpiece of the substantive law proposal is the codification of the economic substance doctrine first found in seminal case law such as *Gregory v. Helvering*[18] and most recently utilized in *ACM Partnership*[19] and the cases in footnote one. The economic substance doctrine requires a comparison of the expected pre-tax profits and expected tax benefits. This test is incorporated in the first part of the Administration's proposed definition of "tax avoidance transaction." Under that test, a tax avoidance transaction would be defined as any transaction in which the reasonably expected pre-tax profit (determined on a present value basis, after taking into account foreign taxes as expenses and transaction costs) of the transaction is insignificant relative to the reasonably expected net tax benefits (i.e., tax benefits in excess of the tax liability arising from the transaction, determined on a present value basis) of such transaction. In addition, the economic substance doctrine would apply to financing transactions (that do not lend themselves to a pre-tax profit comparison) by comparing the tax benefits claimed by the issuing corporation to the economic profits derived by the person providing the financing.

A tax benefit would be defined to include a reduction, exclusion, avoidance or deferral of tax, or an increase in a refund. However, the definition of tax benefit subject to disallowance would not include those benefits that are clearly contemplated by the applicable Code provision (taking into account the Congressional purpose for such provision and the interaction of the provision with other provisions of the Code). Thus, tax benefits that would normally meet the definition, such as the low-income housing credit and deductions generated by standard leveraged leases, would not be subject to disallowance

The above definition of a tax-avoidance transaction is a modification of the Administration's original FY 2000 Budget proposal. The modifications address commentators' concerns about the potential vagueness of the original proposal. Concerns that the IRS might abuse the authority indicated in the original Budget proposal are addressed by a more concrete definition of tax avoidance transaction. In addition, the tax attribute disallowance rule would apply by operation of law, rather than being subject to the discretion of the Secretary.

A similar approach to that discussed above can be found in H.R. 2255, the "Abusive Tax Shelter Shutdown Act of 1999," introduced by Messrs. Doggett, Stark, Hinchey and Tierney on June 17, 1999.

The Treasury Department continues to believe that it is necessary to codify the economic substance doctrine, thus requiring taxpayers to perform a careful analysis of the pre-tax effects of a potential transaction before they enter into it. The Treasury Department's proposed substantive provision is intended to be a coherent standard derived from the economic substance doctrine as

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[18] 293 U.S. 465 (1935).

[19] *ACM Partnership v. Comm.*, 73 T.C.M. (CCH) 2189, affd in part, rev'd in part, 157 F.3d 231 (3d Cir. 1998), cert. denied, 119 S.Ct. 1251 (1999).

enunciated in a body of case law to the exclusion of less developed, inconsistent decisions. Codification of the doctrine, while not creating a new doctrine, would create a consistent standard so that taxpayers may not choose between the conflicting decisions to support their position. Codification would isolate the doctrine from the facts of the cases so that taxpayers could not simply distinguish the cases based on the facts.

Consequences to other parties

Proposals to deter the use of corporate tax shelters should provide sanctions or remedies on other parties that participate in, and benefit from, a corporate tax shelter. These remedies or sanctions would reduce or eliminate the economic incentives for parties that facilitate sheltering transactions, thus discouraging those transactions. As the ABA stated in its recent testimony: "All essential parties to a tax-driven transaction should have an incentive to make certain that the transaction is within the law." With respect to corporate tax shelters, the "other parties" generally are promoters, advisors, and tax-indifferent parties that lend their tax-exempt status to the shelter transaction to absorb or deflect otherwise taxable income.

When Congress was concerned with the proliferation of individual tax shelters in the early 1980s, it enacted several penalty and disclosure provisions that applied to advisors and promoters. These provisions were tailored to the types of "cookie-cutter" tax shelter products then being developed. Similar provisions could be enacted that are tailored to corporate tax shelters.

Alternatively, with respect to promoters and advisors of corporate tax shelters, the Treasury Department proposed to affect directly their economic incentives by levying an excise tax of 25 percent upon the fees derived by such persons from the corporate tax shelter transaction. Only persons who perform services in furtherance of the corporate tax shelter would be subject to the proposal, and appropriate due process procedures for such parties with respect to an assessment would be provided.

A tax-indifferent party often has a special tax status conferred upon it by operation of statute or treaty. To the extent such person is using this status in an inappropriate or unforeseen manner, the system should not condone such use. Imposing a tax on the income allocated to tax-indifferent parties could deter the inappropriate rental of their special tax status, limiting their participation in corporate tax shelters, and thus reducing other taxpayers' use of shelters that utilize this technique.

The Treasury Department proposes to require tax-indifferent parties to include in income (either as unrelated business taxable income or effectively connected income) income earned in a corporate tax shelter transaction. To the extent such parties are outside the U.S. tax jurisdiction, such liability would be joint and severable with the U.S. corporate participant. The proposal would apply only to tax-indifferent parties that are trading on their special tax status and such parties would have appropriate due process rights.

JCT Report

The staff of the Joint Committee on Taxation (JCT), in its study and report on penalty and interest provisions of the Code, also analyzes corporate tax shelters. The JCT staff concluded that there "is evidence that the use of corporate tax shelters has grown significantly in recent years" and "that present law does not sufficiently deter corporations from entering into arrangements with a significant purpose of avoiding or evading Federal income tax." In this regard, the staff made certain legislative recommendations.

The proposals made by the JCT staff are quite similar to those made by the Administration. The JCT staff proposal would require increased disclosure, increase the substantial understatement penalty on undisclosed transactions and tighten the reasonable cause standard, and provide sanctions on other parties to shelter transactions. The major difference between the two sets of recommendations is that the JCT would not codify the economic substance doctrine. However, the JCT proposal does incorporate a version of the economic substance doctrine similar to that of the Administration's proposals in identifying corporate tax shelters.

***Compaq* and other recent decisions**

Since we last testified before this Committee on the problem of corporate tax shelters, the IRS has won some significant tax shelter cases, including *Compaq*, *IES Industries*, *Winn-Dixie*, and *Saba Partnership*. The courts in these cases applied an economic substance analysis in denying tax benefits that purportedly met the black letter of the applicable Code provisions.

These cases are helpful as part of an overall approach to address corporate tax shelters. First, the cases stand for the proposition that both the economic substance doctrine and the role of penalties are important components in the fight against corporate tax shelters. Some may argue that these cases demonstrate that the IRS currently has all the tools it needs to combat corporate tax shelters and that further legislation is unnecessary. Such an assertion ignores the realities of the litigation process and is premised on a misunderstanding of the intent of the Administration's legislative proposals

Reliance on judicial decisions, which taxpayers may attempt to distinguish, is not the most efficient means of addressing corporate tax shelters. Litigation is expensive and time-consuming, both for the government and taxpayers, and frequently does not provide a coherent set of rules to be applied to subsequent transactions. Tax Court Judge Laro, speaking on his own behalf before the Tax Executives Institute last month,[20] acknowledged that the courts have provided little guidance on the amount of economic substance or business purpose sufficient for a transaction to be respected. He stated that such concepts "may require further development in the case law,"

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[20] *BNA Daily Tax Report* (Oct. 28, 1999), G-2

but highlighted the difficulty with such an approach when he said that judges "decide cases one at a time...and don't make tax policy."

The Treasury Department strongly believes that the economic substance doctrine upon which these recent cases have been decided should be codified. The doctrine has been a part of the fabric of our tax system since the seminal case of *Gregory v. Helvering*, but has, until recently, been eroded by some admittedly confusing and conflicting case law that has led to a lack of respect for the doctrine on the part of some taxpayers and tax practitioners. The economic substance doctrine is the most objective, most understandable, and most easily applied of all the judicially created doctrines. We believe that it is appropriate for the Congress to elevate this standard by codifying it, rather than waiting and hoping that the case law evolves in a more coherent and understandable manner.

The Administration's corporate tax shelter proposals, including enactment of the economic substance doctrine, attempt to change the outcome of the cost-benefit analysis undertaken by taxpayers in deciding whether or not to engage in a questionable transaction. Taxpayers should be encouraged to apply these principles before the fact, rather than playing the audit lottery. The Administration's proposals provide a level playing field between overly aggressive taxpayers and compliant taxpayers and between overly aggressive taxpayers and their advisors and the government by ensuring that all parties are playing by the same objective rules, encouraging timely disclosure of potentially questionable transactions, and providing appropriate sanctions to parties that "cross the line."

IRS administrative actions

The IRS currently is undergoing a substantial restructuring. The IRS will be reorganized into divisions based on types of taxpayers. Because the Treasury proposals generally apply to large corporate transactions, the IRS personnel focusing on corporate shelters probably will be located in the IRS's new Large and Mid-Size Business Division, which will be fully operational in 2000.

The restructuring of the IRS will enhance its ability to deal with corporate tax shelters. Centralization of IRS resources focusing on corporate tax shelters will facilitate training and coordination among IRS agents, IRS litigators, their supervisors and Chief Counsel. The IRS also is considering methods to centralize and coordinate the formulation of strategy regarding corporate shelters generally and particular shelter transactions.

Further, to prevent interference with legitimate business transactions, the IRS is considering whether to require examining agents to refer corporate tax shelter issues to a centralized office for consideration. Such a referral process might be similar to that used with respect to the partnership anti-abuse regulations. The IRS is also considering whether to establish of a procedure whereby a taxpayer could obtain an expedited ruling from the IRS as to whether a contemplated transaction constitutes a corporate tax shelter.

The Treasury Department will work closely with the IRS to create appropriate systems and procedures to centralize review and analysis, to ensure fair, consistent, and expeditious consideration of corporate tax shelter issues.

Conclusion

Mr. Chairman, the proliferation of corporate tax shelters presents an unacceptable and growing level of tax avoidance behavior by wasting economic resources, reducing tax receipts, and threatening the integrity of the tax system. This morning we have laid out the rationale for our suggested approach for combating this problem, and discussed why we believe that existing law does not provide sufficient tools to combat this behavior. We look forward to working with you and the members of the Committee to address this important problem, as we have in the past to curb specific abuses.

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DEPARTMENT OF THE TREASURY
DEPARTMENT OF JUSTICE

For Immediate Release
November 10, 1999

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ADMINISTRATION SUBMITS MONEY LAUNDERING ACT OF 1999

The Administration on Wednesday is submitting to Congress the Money Laundering Act of 1999, designed to bolster our domestic and international enforcement powers in the fight against money laundering.

The legislation was called for in the National Money Laundering Strategy jointly announced in September by Treasury Secretary Lawrence H. Summers and Attorney General Janet Reno.

"Money laundering poses a serious threat to any country's economic integrity and security," said Deputy Attorney General Eric Holder. "The Money Laundering Act of 1999 will make it increasingly difficult for those who attempt to launder money through financial institutions to derive profits from their illegal acts."

Deputy Treasury Secretary Stuart Eizenstat added, "the legislation is an important element of our National Money Laundering Strategy. We are committed to ensuring that this Strategy does not remain mere words on paper, but is translated, quickly, into concrete actions that fundamentally change the way we address money laundering."

In the months ahead Treasury and Justice will pursue a variety of initiatives to translate the Strategy into practical action. The new legislation would, among other things:

- Expand the list of foreign crimes that serve as a basis for money laundering prosecution – to include fraud, official bribery, misappropriation of public funds, arms trafficking and crimes of violence.
- Make bulk cash smuggling – smuggling of more than $10,000 out of the United States -- a crime and provide for confiscation of the smuggled currency.
- Make it a crime for a currency courier to transport more than $10,000 in currency in interstate commerce, knowing that it is unlawfully derived.

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- Enact a "long-arm" statute allowing federal courts to exercise jurisdiction over foreign banks and other entities that violate the federal money laundering laws by conducting transactions in the United States.

- Require persons who purchase drug dollars on the Colombian black market to prove that they had no reason to know that the dollars were derived from unlawful activity.

- Give federal prosecutors greater access to foreign business records that may be used to trace the money sold on the Black Market Peso Exchange system, by which drug proceeds from U.S. cities are ultimately converted into goods smuggled into Colombia.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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November 10, 1999

"THE CASE FOR AMERICAN SUPPORT FOR OPEN MARKETS"
REMARKS BY TREASURY SECRETARY LAWRENCE H. SUMMERS
BEFORE THE U.S. CHAMBER OF COMMERCE, BOARD OF DIRECTORS
WASHINGTON, DC

I would like to talk today about what may be the most important issue affecting the lives of our children in the next half-century: the approach that the United States takes toward the global economy in general, and toward the world trading system in particular.

We meet at a time of remarkable economic strength for our country, when our economic power is at a high point and when the power of our example has never been greater. At such a time it becomes especially important to make the right international economic policy choices. And yet, as we consider the difficult debates we have been having about these issues in recent months and years, it is fair to say the fundamental choice for the United States to be a force for the right kind of global integration is under challenge in a way that it has not been since World War II.

In the earliest days of President Clinton's Administration he said that "America must compete, not retreat." Today's National Dialogue on Jobs and Trade is about the importance of staying on the course that has served us so well in the past as we approach the World Trade Organization ministerial that begins in Seattle at the end of the month. That is why President Clinton and Secretary Daley are right now at a factory in York, Pennsylvania today talking with Harley Davidson workers about America's stake in global integration. That is why nearly 250 companies around the nation are hosting events to discuss with their employees the importance of trade. And of course, that is what brings me here today.

I would like to make four points in my remarks:

- First, there is an overwhelming political and national security case for an American open markets policy.

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- Second, there is a compelling direct economic case, in terms of the standards of living of the American people, for an open market policy.

- Third, the right kind of open market policy – the kind that the Administration will be urging at Seattle – is a policy that can work very directly for the American people.

- Fourth, there is a compelling political challenge, in the kind of economy we have today, to maintain political support for American leadership in global integration.

I. The Political and Strategic Case for Support for Open Markets

The crucial link between closer economic integration and our national security is this: we are much less likely as a nation to be drawn into conflict if nations of the world are strong, confident, and forging ever-closer connections than if they are financially unstable and disconnected. In short, trade promotes prosperity, and by promoting prosperity, promotes peace.

Fifty years ago, in the wake of the Second World War, the challenge the world faced was the economic reconstruction of war - ravaged Europe and Japan, and ensuring that the tragic errors of the first half of the century were not repeated, not least the cycle of protectionism of the 1930s and the failure to respond to major changes in the global economic balance of power.

A generation of visionary leaders - in the United States and in Europe - responded by supporting a successful strategy of rapid economic rebuilding as essential to normalization and prosperity and increased economic integration. So people stood more to gain from shared peace than from divisive conflict.

Today's challenge is to integrate the five billion people of the developing world, hundreds of millions of whom are now glimpsing the benefits that a global economy can offer, into a strong and truly global market system. And our answer to that challenge should be the same as it has been since 1945.

I would dare to suggest that there has never been so radical a change in the balance of global economic strength as there has been in the emerging market economies and in Asia in particular over the past 25 years. The fact that this has taken place without major conflict is in no small part a tribute to the integration of nations and peoples through trade and the global institutions that have helped to cement that integration.

By supporting liberalization in these countries, we invest in our future security and we invest in the spread of our core values. Examples such as Korea, Taiwan and Argentina illustrate that economic development and openness bring democratization in its wake, and there's no better way to spur this process than by integrating them into the global marketplace.

II. The Economic Case for Open Markets

But even if there were no security case, no political case, no foreign policy case for open markets and interchange between nations, I believe there would be a compelling economic case, rooted in our standard of living. Perhaps you will pardon me a slightly academic approach of making this point through an analogy - not an original one, I might add.

Imagine a country all of whose harbors were filled with rocks so that ships and goods could not come in, though some could go out. And imagine that it was proposed to remove the rocks from the harbors. Would that be a good thing for that country?

Many people would say that it would be a good thing:

- It would provide citizens with a wider choice of consumer goods, at lower prices.
- It would provide producers with a wider choice of inputs, and lower costs, making them more competitive and able to hire more workers and raise their wages.
- It would provide more competition as a spur to productivity and new ideas - and as a result, lower inflation and lower costs of capital.

To be sure, the removal of those rocks would bring about change in the economy. But looking around, we can see that every day and in every way our market economy - by bringing about improvements in technology, communications and transportation - is bringing down natural barriers and making communication and trade much easier. And this, too, brings enormous and sometime difficult changes as well as great benefits in its wake.

The question is whether we should respond differently to man-made barriers to trade than we do to those natural barriers that new technologies are now eroding - and whether our response should be any different if other countries have bigger rocks in their harbors than we do.

Our economic success in the 1990s is a testament to the benefits that openness can bring:

- Exports have created millions of new jobs - jobs that on average pay 13 to 16 percent above the average wage.
- And our openness to imports has fueled competition and innovation and helped to sustain our growth with almost no inflation and long-term interest rates that even now, after 8.5 years of expansion, are around 2 percentage points lower than they were at its start.

Let me be clear. No one is suggesting that the United States unilaterally lower our trade barriers on a broad scale without reciprocal steps by others. What is at issue - in the debates we have had about ratifying the Uruguay Round or passing Fast Track, or the debates we will have about the WTO meeting in Seattle - is whether we should be involved in a broad project of removing the rocks from our harbors and from other countries' harbors.

It bears emphasis that this is not even a symmetrical debate - since we already have by far the lowest trade barriers in the world. If we look at the trade agreements we have negotiated in recent years, the reductions in our own trade barriers are a fraction of the reductions that other signatories have undertaken. To take just one example, the tariff reductions achieved in NAFTA with Mexico were five times as large in Mexico as in the US. Estimates suggest that that factor would be in the range of three or more for further trade agreements with Latin America and Asia.

To put it yet another way, an open markets approach is not just good economic policy; it's good even from a mercantilist standpoint. And it is especially good policy for the United States because of our strategic position, because of the diversity of our population, and because of the size and strength of our economy.

We have closer relations with Europe than any other region has with Europe, closer relations with Latin America than any other region has with Latin America, closer relations with Asia than any other region has with Asia. We stand at the hub of a world trading system. And the bigger that system is, the more open it is - the more we will benefit from our position at its hub.

Whatever our broader trade policy might dictate, it cannot be right that the richest country in the world is unable to provide preferential access to its markets to countries in Africa where 500 million people live, nearly half on incomes of less than one dollar a day. That is why we so pleased that the African Growth and Opportunity Act has now passed in both houses of Congress with strong bipartisan support.

Closer to home, the trade preferences contained in the strengthened Caribbean Basin Initiative - which has also now passed in both the House and the Senate - will help make these economies much stronger and our own economy safer. What we very much hope now is that remaining differences between the Senate and the House on both the African and the Caribbean measures can be resolved, and legislation that the President can sign reaches him as soon as possible.

III. The Need to Make A Global Economy Work for People

So I believe there is a compelling economic case and a compelling foreign policy and security case for American support for economic openness. But trade cannot be taken in isolation.

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If you think about the history of our country in the late 1800s and the early 1900s, I think most historians would agree that you saw a coming together of the national economy, driven by improvements in transportation and communications. Political leaders in both parties came to recognize that a greater degree of interconnection between states necessitated a greater need for common rule-setting at the national level - because otherwise we would risk a race to the bottom, a bottom in which state governments could not promote fair taxes, uphold fair labor standards, regulate product safety, protect the environment, or promote other key values.

Global integration poses the same kind of challenge for the world's policy makers today. At a time when the world is coming together and man-made and natural barriers to trade are coming down - it becomes vital to prevent a race to bottom. We must not and will not build a global economy in which capital races from jurisdiction to jurisdiction, playing off its greater mobility to the detriment of workers and consumers.

As the President has said: "a legal framework of mutual responsibility and social safety is not destructive to the market; it is essential to its success." To be sustainable - our approach to integration needs to be a balanced approach, which paces the opening of markets to the development of tools to respond to these concerns and to support our deepest values. And that is the approach we will be taking to Seattle.

We want this round to be about greatly expanding the frontiers of global trade and reducing barriers to American goods and services. But we also want this round to be:

- A round about jobs and development - that creates a WTO Working Group on Trade and Labor and gives the International Labor Organization observer status at the WTO.

- A round about ensuring that global integration and environmental protection go and hand in hand, with a thorough review of the environmental impact of the round and pressure for "win-win" measures such as abolishing fishery subsidies that have encouraged over-fishing.

- A round that furthers our democratic values - by making the WTO itself more open and accessible, for example, by opening its dispute resolution procedures to the public.

If we are there at the table, working with developing countries to achieve strong agreements that open global markets to them and to us, we can simultaneously promote labor and environmental priorities and other issues that are important to us. What is more, we can offer their workers the most reliable route to higher wages; namely, access to global markets and expertise. Without our leadership - neither outcome can be guaranteed.

IV. Reasons for Domestic Distrust of Open Markets

I have tried to reflect on why - as compelling as these national strategic, political and economic arguments for integration seem to be - the debate about trade in our country is such a divisive one, and the case for open markets seems less than compelling to so many Americans.

There are probably three main reasons.

The *first* is a natural tendency that we all have to internalize good news and externalize bad news. Think about how many people working at a not so successful company with out-dated technology who lose their job blame it on international trade. Now ask yourself how many people you have ever met who said, "You know, I was doing an OK job for my company, but labor was short and there was a surge of export demand, and so I got a promotion."

Let me note that we tend to see the same dynamic operating higher up the corporate ladder. Think how often it is that CEOs talk about the bad things that are happening to their industry because of trade. Now think about how often they cause a splash talking about the revenue growth that has come from more open markets overseas or lower cost inputs from abroad. It is the nature of the trading process that when there are costs, those costs are apparent and attributed to trade, often much more than is actually the case.

It is equally true that the benefits of trade are rarely perceived as such. How many people, returning from their Christmas shopping this year, will be remarking on the fact that they can buy twice as many toys for their kids than they used to, because of our increased trade links with very poor countries who can make these things more cheaply? How many people think about the fact that their children have not had to fight a major war in this generation, and say "that is why it is so important for us to give strong support for a new global trade round at Seattle?"

The *second* reason why we have had a hard time making a compelling case for trade is that the compelling geopolitical rationale that the Cold War provided is no more. Historians have written at length about the oscillations of the United States between isolationism and global engagement. It over-simplifies but does not distort that work to say that our global engagement has typically been in response to a dire threat.

The threats of the current time - of rising disorder and increasing impoverishment overseas - do not have the emergency character that the threats of an earlier time have had. And yet we have seen in the aftermath of the 1920s, a time that was also a time of great American confidence and economic strength, we saw then what could happen when America was reluctant to engage fully with other nations and respond to new global economic challenges. That is the danger we must work to avoid today.

The third reason why it has been so hard to build a strong consensus around open markets so far is that trade - and integration more generally - tend to become the lens through which all kinds of concerns about a changing world are projected. Whether the root concern is new technology, or deregulation, all of the economic insecurities that this new economy can produce tend to come together when the subject is trade. And that is why it is so essential that we work to equip workers with the education and skills to manage the transition process and to seize the opportunities that come with it.

It is instructive to compare today to that period after the Second World War, of remarkable American internationalism. The lack of a communist threat is one important difference. A different kind of political process is another. I doubt anyone ever focus-grouped the Marshall Plan - and I am not sure how well it would have done if they have. But also it was a period when opportunity and protection was being given to the American middle class. I suspect the G.I. Bill of Rights was a much larger component, not just of America's domestic economic strategy, but of America's international economic strategy, than many think of today.

As the President has said: "working people will only assume the risks of a free international market if they have the confidence that the system will work for them." That is a large part of what his New Markets agenda is about. It is a large part of what empowerment zones - that have already done so much to support renewal and re-investment in our inner cities - were about. And of course it is very much at the core of the specific trade-related initiatives that we have supported, such as the Community Adjustment and Investment Program to support new jobs and regeneration in areas where increased trade has hurt jobs and communities.

V. Concluding Remarks

The President has called it "the challenge of the millennial generation...to create a world trading system, attuned both to the pace and scope of a new global economy and to the enduring values which give direction and meaning to our lives." Whether we succeed will partly depend on the energy that we in government invest in ensuring that people feel they have a stake in the outcome. But it will also depend a great deal on the approach of the kind of people represented here - on whether the people in leadership roles in America's companies invest themselves in the kind of balanced approach to global integration that I have described today. Thank you

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DEPARTMENT OF THE TREASURY

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EMBARGOED UNTIL 2:30 P.M.
November 10, 1999

CONTACT: Office of Financing
202/691-3550

TREASURY OFFERS 13-WEEK AND 26-WEEK BILLS

The Treasury will auction two series of Treasury bills totaling approximately $17,000 million to refund $16,096 million of publicly held securities maturing November 18, 1999, and to raise about $904 million of new cash.

In addition to the public holdings, Federal Reserve Banks for their own accounts hold $8,027 million of the maturing bills, which may be refunded at the highest discount rate of accepted competitive tenders. Amounts issued to these accounts will be in addition to the offering amount.

The maturing bills held by the public include $2,592 million held by Federal Reserve Banks as agents for foreign and international monetary authorities, which may be refunded within the offering amount at the highest 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.

TreasuryDirect customers requested that we reinvest their maturing holdings of approximately $962 million into the 13-week bill and $777 million into the 26-week bill.

This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular for the Sale and Issue of Marketable Book-Entry Treasury Bills, Notes, and Bonds (31 CFR Part 356, as amended).

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

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HIGHLIGHTS OF TREASURY OFFERINGS OF BILLS
TO BE ISSUED NOVEMBER 18, 1999

November 10, 1999

Offering Amount	$9,000 million	$8,000 million
Description of Offering:		
Term and type of security	91-day bill	182-day bill
CUSIP number	912795 DH 1	912795 DW 8
Auction date	November 15, 1999	November 15, 1999
Issue date	November 18, 1999	November 18, 1999
Maturity date	February 17, 2000	May 18, 2000
Original issue date	August 19, 1999	November 18, 1999
Currently outstanding	$12,342 million	---
Minimum bid amount and 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 highest 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 Rate .... 35% of public offering

Maximum Award.................. 35% of public offering

Receipt of Tenders:

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

Payment Terms: By charge to a funds account at a Federal Reserve Bank on issue date, or payment of full par amount with tender. *TreasuryDirect* customers can use the Pay Direct feature which authorizes a charge to their account of record at their financial institution on issue date.

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

FEDERAL FINANCING BANK October 30, 1999

Kerry Lanham, Secretary, Federal Financing Bank (FFB), announced the following activity for the month of September 1999.

FFB holdings of obligations issued, sold or guaranteed by other Federal agencies totaled $43.1 billion on September 30, 1999, posting an increase of $3,774.8 million from the level on August 31, 1999. This net change was the result of an increase in holdings of agency debt of $4,029.1 million, and a decrease in holdings of agency assets of $145.0 million and in holdings of agency guaranteed loans of $109.3 million. FFB made 49 disbursements during the month of September. On behalf of RUS-guaranteed borrowers, FFB extended the maturity of 80 loans. FFB also received 101 prepayments in September.

During the fiscal year 1999, FFB holdings of obligations issued, sold or guaranteed by other Federal agencies posted a net decrease of $2,839.3 million from the level on September 30, 1998. This net change was the result of an increase in holdings of agency debt of $583.0 million, and a decrease in holdings of agency assets of $2,645.4 million and in holdings of agency-guaranteed loans of $776.9 million.

Attached to this release are tables presenting FFB September loan activity and FFB holdings as of September 30, 1999.

LS-237

FEDERAL FINANCING BANK
SEPTEMBER 1999 ACTIVITY

Borrower	Date	Amount of Advance	Final Maturity	Interest Rate
;ENCY DEBT				
J.S. POSTAL SERVICE				
J.S. Postal Service	9/03	$172,900,000.00	9/07/99	5.041% S/A
J.S. Postal Service	9/07	$200,000,000.00	9/08/99	5.043% S/A
J.S. Postal Service	9/07	$247,800,000.00	9/08/99	4.971% S/A
J.S. Postal Service	9/08	$126,000,000.00	9/09/99	4.950% S/A
J.S. Postal Service	9/09	$17,100,000.00	9/10/99	4.939% S/A
J.S. Postal Service	9/10	$237,500,000.00	9/13/99	4.875% S/A
J.S. Postal Service	9/15	$78,200,000.00	9/16/99	4.878% S/A
J.S. Postal Service	9/17	$525,000,000.00	9/20/99	4.878% S/A
J.S. Postal Service	9/17	$264,400,000.00	9/20/99	4.792% S/A
J.S. Postal Service	9/20	$900,000,000.00	9/21/99	4.825% S/A
J.S. Postal Service	9/20	$244,400,000.00	9/21/99	4.940% S/A
J.S. Postal Service	9/21	$700,000,000.00	9/22/99	4.792% S/A
I.S. Postal Service	9/21	$214,900,000.00	9/22/99	4.919% S/A
I.S. Postal Service	9/22	$550,000,000.00	9/23/99	4.940% S/A
I.S. Postal Service	9/22	$249,800,000.00	9/23/99	4.950% S/A
I.S. Postal Service	9/23	$325,000,000.00	9/24/99	4.919% S/A
I.S. Postal Service	9/23	$328,800,000.00	9/24/99	4.950% S/A
I.S. Postal Service	9/24	$300,000,000.00	9/27/99	4.950% S/A
.S. Postal Service	9/24	$231,800,000.00	9/27/99	4.906% S/A
.S. Postal Service	9/27	$150,000,000.00	9/28/99	4.950% S/A
.S. Postal Service	9/27	$245,000,000.00	9/28/99	4.992% S/A
.S. Postal Service	9/28	$111,000,000.00	9/29/99	4.971% S/A
.S. Postal Service	9/30	$750,000,000.00	1/03/00	4.977% S/A
.S. Postal Service	9/30	$500,000,000.00	3/30/00	5.084% S/A
.S. Postal Service	9/30	$2,500,000,000.00	10/01/99	4.971% S/A
.S. Postal Service	9/30	$279,100,000.00	10/01/99	5.002% S/A
VERNMENT-GUARANTEED LOANS				
ENERAL SERVICES ADMINISTRATION				
hamblee Office Building	9/01	$1,407.01	10/01/26	6.418% S/A
hamblee Office Building	9/01	$3,847.42	10/01/26	6.418% S/A
emphis IRS Service Cent.	9/01	$13,001.29	1/02/25	6.435% S/A
oley Square Office Bldg.	9/02	$33,700.00	7/31/25	6.443% S/A
tlanta CDC Lab	9/23	$62,316.13	1/30/02	5.856% S/A
hamblee Office Building	9/24	$85.00	10/01/26	6.351% S/A
hamblee Office Building	9/27	$331,928.26	10/01/26	6.266% S/A
CTC Building	9/27	$352,362.00	11/02/26	6.265% S/A
oley Square Office Bldg.	9/28	$21,590.00	7/31/25	6.346% S/A
URAL UTILITIES SERVICE				
ynches River Elec. #545	9/07	$5,000,000.00	1/03/34	6.099% Qtr.
olin Rural Elec. #528	9/07	$1,893,000.00	1/03/00	5.110% Qtr.

FEDERAL FINANCING BANK
SEPTEMBER 1999 ACTIVITY

Borrower	Date	Amount of Advance	Final Maturity	Interest Rate
[cLeod Coop. Power #554	9/13	$500,000.00	1/03/34	6.111% Qtr.
aurens Elec. #553	9/15	$6,000,000.00	1/03/34	6.189% Qtr.
osebud Elec. #555	9/15	$895,000.00	1/02/29	6.259% Qtr.
osebud Elec. #555	9/16	$895,000.00	1/02/29	6.257% Qtr.
an Isabel Elec. #552	9/16	$6,316,000.00	9/30/09	5.899% Qtr.
arrison County #532	9/22	$1,000,000.00	1/03/34	6.287% Qtr.
arrison County #532	9/23	$1,000,000.00	1/03/00	4.959% Qtr.
ocorro Elec. #541	9/27	$893,000.00	1/03/33	6.018% Qtr.
ocorro Elec. #541	9/27	$893,000.00	12/31/29	6.053% Qtr.
ocorro Elec. #541	9/28	$893,000.00	12/31/29	6.122% Qtr.
eminole Electric #416	9/29	$24,000,000.00	6/30/09	5.970% Qtr.
llegheny Electric #255	9/30	$3,366,552.99	3/31/00	5.074% Qtr.
llegheny Electric #255	9/30	$4,809,961.67	3/31/00	5.074% Qtr.
llegheny Electric #908	9/30	$872,371.33	1/03/00	4.832% Qtr.
llegheny Electric #908	9/30	$2,669,390.92	1/03/00	4.832% Qtr.
llegheny Electric #908	9/30	$3,904,223.97	1/03/00	4.832% Qtr.
llegheny Electric #908	9/30	$2,461,640.87	3/31/00	5.074% Qtr.
razos Electric #917	9/30	$3,454,828.26	1/03/00	4.832% Qtr.
razos Electric #917	9/30	$1,534,489.01	1/03/00	4.832% Qtr.
razos Electric #917	9/30	$379,900.40	1/03/00	4.832% Qtr.
razos Electric #917	9/30	$876,263.39	1/03/00	4.832% Qtr.
razos Electric #917	9/30	$1,144,128.48	1/03/00	4.832% Qtr.
razos Electric #917	9/30	$761,917.60	1/03/00	4.832% Qtr.
razos Electric #917	9/30	$438,061.63	1/03/00	4.832% Qtr.
razos Electric #917	9/30	$818,991.79	1/03/00	4.832% Qtr.
razos Electric #917	9/30	$982,396.17	1/03/00	4.832% Qtr.
razos Electric #917	9/30	$316,792.13	1/03/00	4.832% Qtr.
razos Electric #917	9/30	$229,915.24	1/03/00	4.832% Qtr.
razos Electric #917	9/30	$392,422.39	1/03/00	4.832% Qtr.
razos Electric #917	9/30	$229,992.46	1/03/00	4.832% Qtr.
razos Electric #917	9/30	$164,783.19	1/03/00	4.832% Qtr.
razos Electric #917	9/30	$143,558.79	1/03/00	4.832% Qtr.
razos Electric #917	9/30	$78,651.88	1/03/00	4.832% Qtr.
razos Electric #917	9/30	$118,850.30	1/03/00	4.832% Qtr.
razos Electric #917	9/30	$38,253.17	1/03/00	4.832% Qtr.
razos Electric #917	9/30	$1,258,507.96	1/03/00	4.832% Qtr.
razos Electric #917	9/30	$292,972.01	1/03/00	4.832% Qtr.
razos Electric #917	9/30	$252,621.32	1/03/00	4.832% Qtr.
razos Electric #917	9/30	$949,972.60	1/03/00	4.832% Qtr.
razos Electric #917	9/30	$2,845,558.87	1/03/00	4.832% Qtr.
razos Electric #917	9/30	$1,704,128.06	1/03/00	4.832% Qtr.
razos Electric #917	9/30	$1,021,283.33	1/03/00	4.832% Qtr.
razos Electric #917	9/30	$616,626.01	1/03/00	4.832% Qtr.
razos Electric #917	9/30	$953,015.11	1/03/00	4.832% Qtr.
razos Electric #917	9/30	$517,755.22	1/03/00	4.832% Qtr.
razos Electric #917	9/30	$1,493,947.04	1/03/00	4.832% Qtr.
razos Electric #917	9/30	$1,800,014.90	1/03/00	4.832% Qtr.
razos Electric #917	9/30	$437,489.96	1/03/00	4.832% Qtr.
razos Electric #917	9/30	$1,173,790.53	1/03/00	4.832% Qtr.
razos Electric #917	9/30	$1,525,138.91	1/03/00	4.832% Qtr.

FEDERAL FINANCING BANK
SEPTEMBER 1999 ACTIVITY

Borrower	Date	Amount of Advance	Final Maturity	Interest Rate
,razos Electric #917	9/30	$2,507,405.67	1/03/00	4.832% Qtr.
,razos Electric #917	9/30	$2,683,902.85	1/03/00	4.832% Qtr.
,razos Electric #437	9/30	$1,431,895.39	1/03/00	4.957% Qtr.
,razos Electric #437	9/30	$324,794.26	1/03/00	4.957% Qtr.
'oop. Power Assoc. #130	9/30	$9,128,872.96	10/01/01	5.745% Qtr.
'oop. Power Assoc. #130	9/30	$2,871,617.92	10/01/01	5.745% Qtr.
oop. Power Assoc. #240	9/30	$5,104,118.07	10/01/01	5.748% Qtr.
eorgia Trans. Corp. #446	9/30	$12,011,626.35	3/31/00	4.950% Qtr.
ew Horizon Elec. #473	9/30	$5,291,784.19	1/03/00	4.957% Qtr.
ew Horizon Elec. #473	9/30	$1,417,120.21	1/03/00	4.957% Qtr.
ew Horizon Elec. #473	9/30	$2,292,469.17	1/03/00	4.957% Qtr.
ew Horizon Elec. #473	9/30	$6,794,387.19	1/03/00	4.957% Qtr.
ew Horizon Elec. #473	9/30	$3,460,286.71	1/03/00	4.957% Qtr.
ew Horizon Elec. #473	9/30	$7,052,247.80	1/03/00	4.957% Qtr.
ew Horizon Elec. #473	9/30	$1,780,350.87	1/03/00	4.957% Qtr.
orthwest Iowa Power #907	9/30	$6,481,435.72	10/02/00	5.232% Qtr.
glethorpe Power #445	9/30	$15,419,484.32	1/03/00	4.832% Qtr.
aluda River Elec. #472	9/30	$1,311,831.65	1/03/00	4.957% Qtr.
an Miguel Electric #919	9/30	$8,957,015.40	1/03/00	4.832% Qtr.
an Miguel Electric #919	9/30	$9,404,970.95	1/03/00	4.832% Qtr.
an Miguel Power #492	9/30	$3,066,000.00	9/30/04	5.938% Qtr.
teele-Waseca Coop. #550	9/30	$3,695,000.00	1/03/00	4.803% Qtr.
nited Power Assoc. #911	9/30	$821,679.07	1/03/00	4.832% Qtr.
nited Power Assoc. #911	9/30	$593,753.00	1/03/00	4.832% Qtr.
nited Power Assoc. #911	9/30	$9,860,147.89	1/03/00	4.832% Qtr.
nited Power Assoc. #911	9/30	$3,188,049.53	1/03/00	4.832% Qtr.
nited Power Assoc. #911	9/30	$2,686,312.76	1/03/00	4.832% Qtr.
nited Power Assoc. #911	9/30	$3,189,027.53	1/03/00	4.832% Qtr.
nited Power Assoc. #911	9/30	$3,395,047.00	1/03/00	4.832% Qtr.
nited Power Assoc. #911	9/30	$3,763,026.07	1/03/00	4.832% Qtr.
nited Power Assoc. #911	9/30	$1,434,194.97	1/03/00	4.832% Qtr.
nited Power Assoc. #911	9/30	$3,542,572.77	1/03/00	4.832% Qtr.
nited Power Assoc. #911	9/30	$1,055,217.19	1/03/00	4.832% Qtr.
nited Power Assoc. #911	9/30	$803,084.75	1/03/00	4.832% Qtr.
nited Power Assoc. #911	9/30	$604,925.73	1/03/00	4.832% Qtr.
nited Power Assoc. #911	9/30	$1,038,597.13	1/03/00	4.832% Qtr.
nited Power Assoc. #911	9/30	$1,015,859.99	1/03/00	4.832% Qtr.
nited Power Assoc. #911	9/30	$59,612.87	1/03/00	4.832% Qtr.
nited Power Assoc. #911	9/30	$458,778.86	1/03/00	4.832% Qtr.
nited Power Assoc. #911	9/30	$709,910.03	1/03/00	4.832% Qtr.
nited Power Assoc. #911	9/30	$484,255.39	1/03/00	4.832% Qtr.
nited Power Assoc. #911	9/30	$1,011,815.78	1/03/00	4.832% Qtr.

S/A is a Semiannual rate.
Qtr. is a Quarterly rate.
maturity extension or interest rate reset

FEDERAL FINANCING BANK HOLDINGS
(in millions of dollars)

Program	September 30, 1999	August 31, 1999	Monthly Net Change 9/1/99- 9/30/99	Fiscal Year Net Change 10/1/98- 9/30/99
Agency Debt:				
U.S. Postal Service	$6,279.1	$2,250.0	$4,029.1	$583.0
Subtotal*	$6,279.1	$2,250.0	$4,029.1	$583.0
Agency Assets:				
FmHA-RDIF	$3,410.0	$3,410.0	$0.0	-$265.0
FmHA-RHIF	$7,125.0	$7,270.0	-$145.0	-$2,375.0
DHHS-HMO	$1.7	$1.7	$0.0	-$1.4
DHHS-Medical Facilities	$3.2	$3.2	$0.0	-$4.0
Rural Utilities Service-CBO	$4,598.9	$4,598.9	$0.0	$0.0
Subtotal*	$15,138.8	$15,283.8	-$145.0	-$2,645.4
Government-Guaranteed Lending:				
DOD-Foreign Military Sales	$2,610.9	$2,628.6	-$17.7	-$218.1
DoEd-HBCU+	$11.0	$11.0	$0.0	$6.4
DHUD-Community Dev. Block Grant	$13.6	$14.0	-$0.3	-$16.8
DHUD-Public Housing Notes	$1,419.9	$1,419.9	$0.0	-$71.5
General Services Administration+	$2,404.9	$2,408.4	-$3.4	-$68.2
DOI-Virgin Islands	$16.1	$16.1	$0.0	-$1.3
DON-Ship Lease Financing	$1,138.7	$1,138.7	$0.0	-$86.2
Rural Utilities Service	$13,885.0	$13,969.0	-$84.1	-$281.5
SBA-State/Local Development Cos.	$193.9	$197.5	-$3.7	-$39.5
DOT-Section 511	$3.7	$3.7	$0.0	-$0.1
Subtotal*	$21,697.7	$21,807.0	-$109.3	-$776.9
Grand total*	$43,115.6	$39,340.8	$3,774.8	-$2,839.3

* 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

R IMMEDIATE RELEASE
vember 10, 1999

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 66-DAY BILLS

Term:	66-Day Bill
Issue Date:	November 15, 1999
Maturity Date:	January 20, 2000
CUSIP Number:	912795DD0

High Rate: 5.17 % Investment Rate 1/: 5.31 % Price: 99.052

All noncompetitive and successful competitive bidders were awarded :urities at the high rate. Tenders at the high discount rate were otted 73%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 35,931,750	$ 16,038,700
Noncompetitive	3,685	3,685
TOTAL	$ 35,935,435	$ 16,042,385

Median rate 5.16 %: 50% of the amount of accepted competitive tenders tendered at or below that rate. Low rate 5.07 %: 5% of the amount accepted competitive tenders was tendered at or below that rate.

-to-Cover Ratio = 35,935,435 / 16,042,385 = 2.24

Equivalent coupon-issue yield.

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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

ıR IMMEDIATE RELEASE
ıvember 10, 1999

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 9-3/4-YEAR NOTES

This issue is a reopening of a note originally issued August 15, 1999.

terest Rate:	6%	Issue Date:	November 15, 1999
ries:	C-2009	Dated Date:	August 15, 1999
SIP No:	9128275N8	Maturity Date:	August 15, 2009
RIPS Minimum:	$100,000		

High Yield: 6.007% Price: 99.927

All noncompetitive and successful competitive bidders were awarded ɔurities at the high yield. Tenders at the high yield were lotted 8%. All tenders at lower yields were accepted in full.

Accrued interest of $ 15.00000 per $1,000 must be paid for the period ɔm August 15, 1999 to November 15, 1999.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 24,775,530	$ 9,921,230
Noncompetitive	83,683	83,683
PUBLIC SUBTOTAL	24,859,213	10,004,913 1/
Federal Reserve	2,135,000	2,135,000
Foreign Official Inst.	500,000	500,000
TOTAL	$ 27,494,213	$ 12,639,913

Median yield 5.990%: 50% of the amount of accepted competitive tenders ; tendered at or below that rate. Low yield 5.910%: 5% of the amount accepted competitive tenders was tendered at or below that rate.

ì-to-Cover Ratio = 24,859,213 / 10,004,913 = 2.48

Awards to TREASURY DIRECT = $48,342,000

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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
November 12, 1999

Contacts: Steve Posner
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TREASURY SECRETARY TO VISIT SOUTHWEST BORDER REGION

Treasury Secretary Lawrence H. Summers will visit the Southwest Border Region – Tucson, Arizona and El Paso, Texas - on Monday, November 15.

In Tucson, Secretary Summers will address the first Community Forum of the President's Interagency Task Force on the Economic Development of the Southwest Border **at 9 a.m. MST at the University of Arizona, University Science and Technology Park, The Presentation Room (Room 1350), 900 S. Rita Road.** Press should plan to arrive by 8:30 a.m. MST to set up.

In El Paso, Secretary Summers will tour the Bridge of the Americas to review the progress of the Border Coordination Initiative (BCI) and state-of-the-art technology used by U.S. Customs, a bureau of the Treasury Department, to help deter drug smuggling and other border violations. The media is invited to join the Secretary **at 1:45 p.m. (MST) at the Bridge of the Americas** for a walking tour followed by a press availability. Press should plan to arrive by 1:20 p.m. (MST) to set up under the secondary inspection canopy.

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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 by teleconference
November 15, 1999

TREASURY SECRETARY LAWRENCE H. SUMMERS
REMARKS TO SOUTHWEST BORDER FORUM:
"SUPPORTING EMERGING MARKETS ON THE SOUTHWEST BORDER"

Thank you, Representative Kolbe, for that introduction. As Chairman of the Treasury-Postal Subcommittee on appropriations, you have been a key partner for Treasury and a leader on that committee – in bringing much-needed attention to enforcement concerns and especially Customs, and in working to ensure that this crucial part of Treasury's mission is adequately funded. And you have been critical to ensuring that the IRS has the funding it needs to carry through major reform and restructuring.

Let me also offer my thanks to Representative Pastor, who is a leader in his district, just up the road from here, and an important partner to the Administration back in Washington – particularly on issues affecting the border; to Deputy Assistant Secretary Lynda de la Vina, who has helped to organize this event; to our gracious hosts, University of Arizona Senior Vice President and Provost Paul Sypherd; and, most of all, to the community leaders, businesspeople, and representatives of non-governmental organizations who are here today for this important dialogue on the challenges we face in this part of the country.

I am delighted to be helping to kick off the first of four border forums to be held by the President and Vice-President's Task Force on the Economic Development of the Southwest Border. Not so long ago, it would have been surprising for a Treasury Secretary to be asked to chair such a Task Force. Today, after nearly 7 years of Treasury efforts to bring capital and private enterprise to every region in America, it seems the most natural thing in the world.

Let me address three topics:

- First, the outlook for the United States economy as whole.
- Second, broadening our economic success to include more of the people of the border region.
- Third, the challenge of strengthening protection of the border and its communities.

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*U S Government Printing Office 1998 - 619-559

I. A Remarkable Time for the National Economy

We meet at a time of remarkable prosperity in our country, a time when the things that should be up are up – and the things that should be down are down.

- At a little more than 4 percent, the unemployment rate is lower than it has been in 30 years – and female unemployment is the lowest in 46 years. Yet inflation remains at low rates.

- Our economy has created nearly 20 million new jobs since the beginning of 1993. Productivity is growing faster than any could have expected even a few years ago. And for the first time in a generation, real wages in almost ever income group are rising.

- Business investment has surged, with purchases of equipment and software growing at double-digit rates for six years in a row. Indeed, real investment as a share of GNP is today higher than it has been at any time since World War II.

- Welfare rolls and national crime rates are the lowest in 30 years. And 5 million Americans have been lifted out of poverty since this Administration began.

These new developments reflect an economy that is in many ways new and also a new national economic strategy – a strategy based on harnessing the power of markets and establishing a framework in which markets can operate.

New technologies have forced profound changes in the way economic life is organized – changes for which our economy has turned out to be superbly well equipped.

- Our traditions of flexibility and market competition have helped build a venture capital sector in which entrepreneurs may raise their first $100 million before buying their first suits.

- And they have helped to create a post-industrial economy where Americans are leaders in almost every area: from fast food to accounting, from management consulting to retailing, from higher education to mass entertainment.

At the same time, a new economy could not emerge except on a foundation of old virtue. Our economic success has been made possible by President Clinton and Vice President Gore's determination to forge a new national consensus in support of sound macro economic policies – especially when it comes to the management of our nation's budget.

In 1992, the Federal deficit was $290 billion and projected to rise. In the fiscal year just completed, we recorded a surplus of $123 billion, the first time we have achieved two budget surpluses in a row since 1957. As a result of this move from deficit to surplus, $1.7 trillion that was predicted to be consumed by government borrowing when President Clinton took office has instead been invested in our future – in America's businesses, its workers and its communities.

Americans can rightly feel proud of the unrivaled success of their economy as the end of the century draws near. But we know that to continue that success we need to make it deeper and we need to make it reach more of our people.

Widening the circle of economic opportunity to include all of our poorest regions and cities is what the President's New Market tours have been about – the most recent of which ended earlier this month in Chicago with a joint statement of priorities by the President and Speaker Hastert.

And that is what the Southwest Border Task Force is about. We spend a lot of time at Treasury thinking about emerging markets – but there are no more important emerging markets than the ones here at home.

Let me spend the rest of my time today on the two greatest challenges that the border region faces: generating economic opportunities and strengthening enforcement.

II. Broadening American Prosperity to reach all of the Southwest Border

One does not need to spend long in Tucson or Phoenix to see that many in Arizona have been part of the longest peacetime expansion in American history. At the same time, we also know that too many have been left out.

It cannot be right that at a time of such remarkable national economic opportunity:

- About one third of the countries in the Southwest border have an unemployment rate of more than 10 percent, and in some counties as many as one in four of the workforce is out of work.

- Nearly half a million people living on the border live in *colonias* without running water, sewers, electricity or paved roads. This translates into a 6 times higher rate of tuberculosis among border residents than the national average – and a 5 times higher incidence of Hepatitis A. Yet an estimated 3 million residents of the area are uninsured.

Today we are delivering to the Vice President an interim report of the Task Force highlighting these and other problems and what we are doing to address them. This will be disseminated on the Treasury website, in its new pages for Southwest Border Task Force information. And in April, the Task Force's first Annual Report will outline key policy options for promoting sustainable development in the border region that must guide the Task Force going forward.

As today's Report makes clear, generating growth and opportunities is a complex and many-sided effort. But any consideration of America's recent economic performance would highlight two key ingredients for economic success in the new global economy:

- The first is successful integration with that economy – giving businesses and workers the capacity to seize the opportunities and manage the risks.

- The second is an effective financial system – ensuring ready access to capital to anybody with a good idea and the capacity to make it work.

Let me briefly discuss each of these with reference to the particular difficulties they pose to this region – and the Administration's efforts to address them.

1. Managing Economic Integration and the Role of the NAD Bank

President Clinton and Vice President Gore have supported a more open and economically integrated global economy because it helps generate increased opportunities and rising living standards here at home – and because it helps to build a more stable and prosperous world. But we all recognize that trade cannot be taken in isolation.

As the President has said: "working people will only assume the risks of a free international market if they have the confidence that the system will work for them." At a time when the world is coming together and barriers to trade are coming down – it becomes vital to prevent a race to the bottom. That is why our approach to integration needs to be a balanced approach, one that marries the opening of markets to the development of tools to respond to broader social and environmental concerns and support our deepest values.

In this context, two Administration initiatives here in the border region deserve special mention.

The first is the North American Development Bank and its sister organization, the Border Environment Cooperation Commission, which we worked to establish at the time of NAFTA with regional leaders and our partners in Mexico. Both of these institutions have made good progress in fulfilling their mandate. Notably the NADBank has now authorized almost $155 million in loans and grants – representing a total investment in environmental infrastructure along the border of over $550 million.

But we all recognize that the border's environmental infrastructure needs are far from being met. That is why we are working to bring the NADBank's energy and commitment to bear on some of the other environmental health problems facing the region: for example, to include improving the accessibility to water and sewage services in homes that currently lack them. We look forward to dialogue on changing its mandate, where necessary, to make this possible.

The second initiative is the Community Adjustment Investment Program, which we worked with Congress to create to help to address directly the short-term employment impact of expanding trade. To date, the CAIP has provided financing through direct loans and the subsidy of loan guarantee fees from other government programs, leading to a total of 160 loans in the region amounting to nearly $50 million – loans which have helped to create or retain around 1500 jobs.

Last year Congress appropriated $10 million dollars to enhance the CAIP, and we are now collecting applications from communities and organizations that wish to access these funds. To that end, I am pleased to note that eligibility for CAIP programs has been expanded: to cover 40 border counties instead of four, and to include a direct grant and technical assistance program.

2. Ensuring Broad Access to Capital

Every part of the country and every type of business with the capacity to earn a fair return ought to have an opportunity to receive capital it needs. The first lady is right: it does take a village to raise a child. And it takes capital to build a successful village.

The Community Development Financial Institutions Fund – created early in this Administration with the strong personal backing of the President – aims to provide capital for worthwhile investments in areas that the private capital tends to leave behind. Since 1996 it has provided more than $14 million for new lending and investment in under-served markets along the border.

One example of the CDFI Fund's work right here in Tucson is the PPEP Microbusiness and Housing Development Corporation. Since 1986, PPEP has provided a wide range of financing and training services to its rural southern Arizona target market. Support provided to the PPEP in the past three years from the CDFI Fund has helped it to expand and develop new loan products across the border region – including a mortgage loan pool that will be capitalized by a $1 million investment from the CDFI Fund.

Let me tell you one person's story: that of Daniel Renteria, who is here in the audience today. Daniel started a small auto-mechanic business in 1987, after ten years as a mechanic at a gas station in Nogales, Arizona. At that time he applied for a $1000 loan to buy an air compressor from PPEP Micro in Tucson. That began a virtuous circle of growth, increased need for capital, and more PPEP loans that enabled further growth. The most recent $50,000 loan granted last year will help Daniel expand his business from six bays to ten – and will cement his membership of the local Chamber of Commerce.

Daniel is an example for others to follow – and an example of the way that the right kind of public policy can help to unlock private sector potential. We must work to ensure there are many more stories like these in the future.

III. Protecting the Border and the Communities Who Live Beside It

There is no greater obstacle to growth than the absence of a fully functioning rule of law. And nowhere is the rule of law more important than at our border, where we must help to encourage lawful, productive commerce while preventing smuggling of the most destructive substances.

To be sure, none of us at Treasury can afford to take for granted the contribution that Customs makes to our economy in facilitating free and legal trade across our borders. That is one reason why we have been working so hard, with the leadership of Commissioner Kelly and the support of Representative Kolbe, to make sure that the Customs Service is as strong as it can possibly be.

The challenges facing our US Customs Service and other law enforcement agencies on the Southwest Border may be greater today than they ever been. Let me highlight just two of these challenges, and the way that enhanced interagency coordination is helping us to combat them.

Drugs

The Southwest border remains the principal entry point for smuggling drugs, and firearms into the United States. And every day, drugs are destroying hundreds of young lives in border communities: indeed, I gather that the Dallas Morning News has recently been reporting on rising number of teenage drug smugglers in this region.

As those articles attest, the war on drugs has not yet been won. But if we are winning more battles than we were five years ago – many of those are being won on the border.

Let me take one recent example: Operation Impunity. This involved Customs, the Drug Enforcement Agency and the Federal Bureau of Investigation working together in a two-year investigation resulting in the seizure of 13 tons of cocaine, 2.5 tons of marijuana, and $19 million in currency and the arrest of 93 individuals linked to the Amado Carillo Fuentes drug trafficking organization headquartered in Juarez, Mexico. This will substantially hinder the ability of this organization to move cocaine and other drugs into, and around, the United States in the future.

Enhanced coordination is also at the core of the success of the Border Coordination Initiative, (BCI), a year-old partnership between Customs Service and the INS and agencies operating at and between border ports of entry – including the Departments of Transportation, Justice, Agriculture, and Interior. This initiative is already having an effect: in fiscal year 1999, seizures of cocaine, marijuana and heroin were all up by 23 to 33 percent.

Money laundering

Money laundering is another growing threat. But in September, Attorney General Reno and I announced the first National Money Laundering Strategy, a comprehensive set of concrete actions we will take to address the problem. And just last week we sent to the Congress the Money Laundering Act of 1999.

If passed, that legislation will for the first time make it a crime to launder money derived from foreign official corruption. It will also make bulk cash smuggling of more than $10,000 a crime, give U.S. courts "long-arm" power over foreign banks that violate U.S. laws when conducting transactions in the United States and give law enforcement new tools to go after the largest known money laundering system, the Black Market Peso Exchange.

This bill is only the first concrete consequence of the National Money Laundering Strategy. In the coming months I expect to announce further far-reaching initiatives.

III. Concluding Remarks

I have spoken about challenges we face and our approach to meeting them. But the real value of this gathering today is the contribution that each of you in the audience can make in the dialogues in which you will be engaged today, through your input. Because it is you who are living, working, and raising families along the border.

That is what this event is all about – to hear from you about what is working, what is not working, and how we can work together to help ensure that this region shares in the nation's prosperity. As the Chair of the Southwest Border Task Force I am determined to see that the action plan is carried out quickly and effectively. We want a border region with its own distinct and valuable culture and heritage, but also one that shares more of the economic characteristics of other parts of the nation. Thank you.

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

ɔR IMMEDIATE RELEASE
ɔvember 15, 1999

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Term:	91-Day Bill
Issue Date:	November 18, 1999
Maturity Date:	February 17, 2000
CUSIP Number:	912795DH1

High Rate: 5.115% Investment Rate 1/: 5.269% Price: 98.707

All noncompetitive and successful competitive bidders were awarded ɛcurities at the high rate. Tenders at the high discount rate were .lotted 70%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 23,396,662	$ 7,406,224
Noncompetitive	1,336,796	1,336,796
PUBLIC SUBTOTAL	24,733,458	8,743,020 2/
Foreign Official Refunded	259,240	259,240
SUBTOTAL	24,992,698	9,002,260
Federal Reserve	4,226,564	4,226,564
Foreign Official Add-On	15,760	15,760
TOTAL	$ 29,235,022	$ 13,244,584

Median rate 5.100%: 50% of the amount of accepted competitive tenders ıs tendered at or below that rate. Low rate 5.030%: 5% of the amount accepted competitive tenders was tendered at or below that rate.

.d-to-Cover Ratio = 24,733,458 / 8,743,020 = 2.83

Equivalent coupon-issue yield.
Awards to TREASURY DIRECT = $1,057,483,000

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

)R IMMEDIATE RELEASE
›vember 15, 1999

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Term:	182-Day Bill
Issue Date:	November 18, 1999
Maturity Date:	May 18, 2000
CUSIP Number:	912795DW8

High Rate: 5.215% Investment Rate 1/: 5.444% Price: 97.364

All noncompetitive and successful competitive bidders were awarded ·curities at the high rate. Tenders at the high discount rate were lotted 91%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 24,733,129	$ 4,565,769
Noncompetitive	1,112,366	1,112,366
PUBLIC SUBTOTAL	25,845,495	5,678,135 2/
Foreign Official Refunded	2,333,160	2,333,160
SUBTOTAL	28,178,655	8,011,295
Federal Reserve	3,800,000	3,800,000
Foreign Official Add-On	141,840	141,840
TOTAL	$ 32,120,495	$ 11,953,135

Median rate 5.215%: 50% of the amount of accepted competitive tenders з tendered at or below that rate. Low rate 5.130%: 5% of the amount accepted competitive tenders was tendered at or below that rate.

l-to-Cover Ratio = 25,845,495 / 5,678,135 = 4.55

Equivalent coupon-issue yield.
Awards to TREASURY DIRECT = $849,737,000

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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
November 16, 1999

STATEMENT BY TREASURY SECRETARY LAWRENCE H. SUMMERS

Last night's agreement on debt relief is important for half a billion people in the world's poorest countries. Debt relief emphasizing economic growth and poverty reduction is good, sound and conservative financial practice. Additional resources will now be available for critical needs like poverty reduction, education and health care. With President Clinton's leadership at Cologne, the world committed itself to debt relief for the world's poorest in this Millenium year. This agreement moves toward making that commitment a reality.

The important work of debt reduction is not complete. We welcome Congress' commitment to move forward early next year to release the remaining resources necessary to bring this global effort to fruition.

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Weekly Release of U.S. Reserve Assets

November 16, 1999

The Treasury Department today released U.S. reserve assets data for the week ending November 12, 1999.

As this table indicates, U.S. reserve assets totaled $72,275 million as of November 12, 1999, as compared with $72,367 million as of November 5, 1999.

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

1999 Week Ending	Total Reserve Assets	Gold Stock 1/	Special Drawing Rights 2/	Foreign Currencies 3/ ESF	Foreign Currencies 3/ SOMA	Reserve Position in IMF 2/
November 5, 1999	**72,367**	11,047	10,429	15,936	15,939	19,016
November 12, 1999	**72,275**	11,047	*10,375*	15,966	15,969	*18,918*

1/ Gold stock is valued monthly at $42.2222 per fine troy ounce. Values shown are as of September 30, 1999. The August 31, 1999 value was $11,046 million.

2/ SDR holdings and the reserve position in the IMF are based on IMF data and valued in dollar terms at the official SDR/dollar exchange rate. Consistent with current reporting practices, IMF data for November 5, 1999 are final. Data for SDR holdings and the reserve position in the IMF shown as of November 12, 1999 (in italics) reflect preliminary adjustments by the Treasury to the November 5, 1999 IMF data.

3/ Includes holdings of the Treasury's Exchange Stabilization Fund (ESF) and the Federal Reserve's System Open Market Account (SOMA). These holdings are valued at current market exchange rates or, where appropriate, at such other rates as may be agreed upon by the parties to the transactions.

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FOR IMMEDIATE RELEASE
November 16, 1999

STATEMENT BY TREASURY SECRETARY LAWRENCE H. SUMMERS AND COUNCIL OF ECONOMIC ADVISERS CHAIRMAN MARTIN N. BAILY

The Administration respects the independence of the Federal Reserve in making decisions about our nation's monetary policy. We share the Federal Reserve's goals of maintaining healthy economic growth while preserving low inflation.

Supported by sound economic policies, including budget discipline, the economy continues to grow, with strong investments and higher productivity, creating good jobs and improved living standards for all Americans. We are committed to sustaining this economic success into the future.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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Text as Prepared for Delivery
November 17, 1999

STATEMENT BY TREASURY DEPUTY SECRETARY STUART E. EIZENSTAT ON THE GERMAN FOUNDATION INITIATIVE FORCED AND SLAVE LABOR NEGOTIATIONS IN BONN, GERMANY

First, I would like to say that this has been a difficult but our most productive session. We are pleased that the plaintiffs' attorneys have reviewed the legal closure documents agreed to by the U.S. Government and the German side, and have accepted them. An effective mechanism for legal closure has now been accepted by all parties. This is an important achievement. We have also nearly completed work on an Executive Agreement between the United States and Germany that firmly commits both sides to this process. Pursuant to that agreement, the U.S. Government would undertake the extraordinary commitment of filing statements of interest in current and future suits against German companies arising from their activities during the Nazi era and World War II. As an additional step, the U.S. Government is willing to take appropriate measures to deal with state and local sanctions, or other efforts, that might interfere with this process. The German companies have insisted that legal closure was fundamental to the establishment of the Foundation.

Here I would like to note that, in the United States, we have had the highest levels of government and three government departments -- State, Justice and Treasury -- engaged in this process for more than a year. The German companies have insisted that legal closure was fundamental to the establishment of the Foundation. We have now provided the German side with what they have requested: an effective mechanism to achieve legal closure. Our legal efforts represent a step that is unprecedented in U.S. history.

In addition to these extraordinary efforts, President Clinton has written twice to Chancellor Schroeder. The President's most recent letter, dated November 13, urged continued flexibility on the German side.

Second, the Germans proposed a range of between six and 10 billion D-Marks and the plaintiffs' attorneys proposed a range between 10 and 15 billion D-Marks, proposals which actually touched each other for the first time. As you know, in early October, the German side offered six billion D-Marks. The German government is now prepared to increase its share by an additional one billion D-Marks. This increase would be on top of the current German offer of six billion and contingent on the private sector's willingness to increase its offer as well, which they have now done.

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The plaintiffs' attorneys have responded positively by indicating that there has been very significant progress, that this represents a serious offer by the German side, and they pledged to work together to bridge the gap.

I want to applaud the additional flexibility shown by all sides in these discussions. I particularly want to express my appreciation for the leadership of Chancellor Schroeder in making this proposal under difficult budgetary constraints.

Given these two new proposals a negotiated settlement now seems attainable.

Contingent on an appropriate allocation formula, several Central and Eastern European countries have assured me they could accept a settlement. Furthermore, it is our understanding that the Government of Israel and the Conference of Jewish Material Claims Against Germany are of the view that the German proposal could lead to dignified payments being made to Jewish slave laborers.

Count Lambsdorff and I will be meeting next week in Washington to discuss the future course of these negotiations. We are now so close that it is critical for all sides to make the last steps necessary to reach agreement. I want to urge all participants to reflect on how far we have come and what the consequences would be if we do not succeed. In this interval, I ask all parties to refrain from actions or statements that could threaten the process.

Third, regarding payments to other workers who were forced to participate in the Nazi war effort, such as agricultural workers, the German initiative will permit the Reconciliation Foundations to make such payments to them, if they wish to do so.

Fourth, while these developments in the last two days represent considerable progress, and the two sides have narrowed their differences, there still remains a gap that must be bridged. I call on both sides to find ways to bridge this gap.

For the vast majority of victims, the German Foundation Initiative represents the only mechanism by which they may have any hope of recovering. Settlement of individual lawsuits would not benefit the vast majority of victims. The lawsuits can only cover those victims who were employed by the 16 German corporations that are subject to U.S. jurisdiction—that is, those companies with business activities in the United States. By definition, these are a limited number of individuals. Thus, should the German Foundation not be established, as many as a million former forced laborers would be unable to receive any benefit. Those left out would include former laborers of SS companies, former laborers of public sector corporations, former laborers of defunct companies, and others. In addition, should the German Foundation not be established, the victims would also lose the benefit of the German government contribution.

- These talks must not fail for the sake of U.S.-German economic and political relations.

- The talks also must not fail because success will buy the legal peace that German companies deserve to do business in the United States.

- Finally, and most importantly, these talks must not fail for the sake of the victims in Poland, the Czech Republic, Ukraine, Belarus, and Russia, as well as the Jewish victims. These slave and forced laborers deserve a small measure of justice in the few years remaining in their lives.

It is important that the German people recognize that the vast majority of the potential beneficiaries of the German Foundation are citizens of Central and East Europe who has, thus far, benefited little from German compensation programs. It is therefore critical that these negotiations continue.

It is also important not to lost sight of the significance of the generosity shown by the original 16 companies which supported the German Foundation Initiative: that is, to be willing to make payments not only to their own workers but also to all those who were forced to work for any private German company existing at the time.

Finally, it is also important to realize that litigation contains many risks for both sides and, even if successful, would mean considerable delay. The majority of victims, whose average age is 80, are unlikely to live long enough to be able to benefit from litigation. The German Foundation, on the other had, could be making payments in a matter of months. Thus, the proposed German Foundation Initiative is the best way to provide some measure of justice so these elderly victims, who have already waited too long and should not be made to wait any longer.

As I have previously state, Chancellor Schroeder and the German people should be commended for this historic initiative. The success of the Foundation would make it possible for Germany to enter the new millennium with a final moral gesture for the 20th Century to those hundreds of thousand of people who stand to benefit from the German Foundation.

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For Immediate Release
November 18, 1999

Contact: Maria Ibanez
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STATEMENT BY TREASURY SECRETARY LAWRENCE H. SUMMERS

I welcome today's gathering of the Financial Action Task Force (FATF), which includes representatives from Africa, Asia/Pacific, the Caribbean, Central and Eastern Europe and South America. We congratulate FATF on its leadership in expanding anti-money laundering efforts worldwide. The U.S. will increasingly rely on the FATF and its work to raise international standards as we implement our National Money Laundering Strategy. We will only have maximized our efforts in fighting financial crime and money laundering when there are no jurisdictions where illegal profits of crime can be hidden.

Money laundering uses the financial system to conceal profits of crime. It is global in reach and provides the funds for criminals and their organizations to continue their illegal activity. We are firmly committed to working with our international partners to strengthen law enforcement activity to disrupt the flow of illicit proceeds, and support FATF's efforts to encourage all jurisdictions to develop strong anti-money laundering programs.

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FOR IMMEDIATE RELEASE
Text as Prepared for Delivery
November 18, 1999

"LATIN AMERICAN FINANCE AT THE END OF THE 90s"
TREASURY ASSISTANT SECRETARY FOR INTERNATIONAL AFFAIRS
EDWIN M. TRUMAN
REMARKS AT THE FLORIDA INTERNATIONAL BANKERS ASSOCIATION
33RD ANNUAL ASSEMBLY
MIAMI, FL

It has been said that to know where your going, it helps to know where you've been. As we close out 1999, Latin America can look back with some satisfaction on the past decade. Protectionist and populist policies that were coming under attack at the beginning of the decade have largely been replaced by policies that allow markets to flourish. As a result, Latin America's GDP has grown 3.8 percent per year during the Nineties, well above the annual growth rate of 2.2 percent in the Eighties. Nevertheless, as the new millennium approaches, dealing effectively with global financial flows poses an ongoing challenge to continued growth and stability in Latin America. We all know that the first line of defense is sound macroeconomic policies. In addition, valuable lessons about financial policies can be drawn from both Latin America's own recent experiences and the experiences of other emerging market countries. I hope my remarks will contribute to this process.

Latin America is important to the United States

The market-friendly policies adopted by Latin American countries over the past decade have deepened U.S. economic ties with the region. From 1991 to 1998, total U.S. trade (exports plus imports) with Latin America has increased 128 percent, substantially more than the 75 percent increase in U.S. trade with the rest of the world. U.S. investment has accompanied the increase in trade flows. The United States accounted for 47 percent of foreign direct investment, on average, in Latin America in 1997 and 1998.

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As U.S. economic ties with Latin America have deepened, so has the level of cooperation and consultation among policy makers. Perhaps most reflective of that trend is the Summit of the Americas process, launched here in Miami five years ago by the heads of state of this hemisphere's democratic nations. As President Clinton said at that time, "history has given the people of the Americas a dazzling opportunity to build a community of nations committed to the values of liberty and the promise of prosperity."

To help further that promise of prosperity, Western Hemisphere finance ministry officials, for example, meet regularly under the auspices of the Committee on Hemispheric Financial Issues or CHFI, as it is commonly known. Through CHFI, the region's finance ministers seek to foster the strengthening and integration of capital markets to support the growing economic ties within the region. The next meeting will be in February in Cancun.

The last two years have been difficult

Despite deeper economic integration in the Western Hemisphere and generally prudent macroeconomic policies, Latin American economies remain susceptible to external shocks. Global financial turmoil, falling commodity prices, and unusually bad weather over the last two years have combined to take a heavy toll on regional GDP growth.

Following the Asian crisis that began in mid-1997, net private capital flows to Latin America fell from about $120 billion in 1997 to around $80 billion in 1998. Issuance of bonds in external markets also declined significantly from $85 billion in the eighteen months preceding July 1997 to $65 billion over the following eighteen months. Those developments put pressure on exchange rates and foreign exchange reserves.

Many countries responded by raising domestic interest rates. Local short-term interest rates (90-days or less) in major Latin American countries increased from an average of 17.5 percent in July 1997 to 32 percent in October 1998. The average remained above 24 percent through April of this year. As the adverse effects of higher domestic interest rates and reserve losses mounted, several countries, including Brazil, Ecuador, Chile, and Colombia, re-evaluated their exchange rate regimes and chose to float their currencies.

Weak commodity prices exacerbated the effects of reduced capital inflows and higher domestic interest rates. Commodity prices fell 16 percent from December 1997 to December 1998, by one measure (Commodity Research Bureau). The large drop hurt Latin America's terms-of-trade - prices of exports relative to prices of imports - which the IMF calculates fell 24 percent in 1998. More importantly for the region's oil exporters, the price of oil plunged 58 percent in the 24 months to December 1998.

Venezuela, where oil exports account for 15 to 20 percent of GDP, was particularly hard hit.

Non-oil commodity exporters have also suffered. The 44 percent decline in copper prices since June 1995 has constrained the growth of Chile's GDP, where copper exports comprise 40 percent of Chile's total exports. Although commodity prices have rebounded on average in 1999, led by a 77 percent jump in the price of oil, agricultural prices continue to languish, declining 12 percent this year, after falling 20 percent in 1998, as measured by the commonly used Goldman Sachs' Index. That weakness has continued to dampen growth for agriculture exporters such as Argentina, Brazil, and Colombia.

Finally, an unusually bad draw in weather, coupled with negative commodity price shocks, has played havoc with several countries' economies and exports, including the Peru, Ecuador, and Central American economies.

Largely as a result of those shocks, the economies of Argentina, Brazil, Chile, Colombia, Ecuador, and Venezuela are in recession. In some countries, such as Ecuador, deep-seated domestic economic and financial problems also played an important role in causing the recession. For the region, Consensus Forecasts expects GDP to contract 0.5 percent in 1999, after growing only 2.1 percent in 1998. That compares to regional growth of 5.1 percent in 1997. One notable exception is Mexico, where GDP is projected to expand 3 percent or more this year, after growing almost 5 percent in 1998. Mexico has benefited from its close economic ties to the United States. However, Mexico's commitment since 1995 to sound macroeconomic policies in a difficult external environment has been essential to its recent relative economic success; its flexible exchange rate regime also has provided an important shock absorber.

Prospects are brighter

For the most part, the policy response of other Latin American governments to negative external shocks has been similar to Mexico's (though with some exceptions). The vast majority of countries responded to external economic and financial pressures with renewed commitments to prudent fiscal and monetary policies, deeper financial sector reforms, and no significant reversals of trade liberalization. Such responses, during a time of economic pressure, underline the robustness of the reform consensus. One encouraging result of prudent macroeconomic policies is that inflation remains subdued in the region. In 1999, the inflation rate for the region is expected to be in the single digits for the third year in a row.

Responsible economic policies and a more stable external environment provide a solid platform for the resumption of growth next year. The average spread on external Latin American sovereign debt, as measured by J.P. Morgan's Latin EMBI, has fallen from its recent high of over 900 basis points in August to under 700 today. Further, as

I noted earlier, commodity prices, with the exception of some agriculture prices, have generally rebounded. Short-term interest rates on average in major economies in the region, at less than 17 percent, are now half as high as one year ago. The increased prevalence of flexible exchange rates provides more scope for continued declines in interest rates looking forward. Thus, next year looks more promising for economic growth in Latin America. The Consensus Forecast currently is for 3.2 percent GDP growth in 2000.

Global financial markets

The key issue for Latin American and other emerging market economies going forward is financial management in an environment of large potential shocks in global capital flows. Capital will always have ebbs and flows, to some extent independent of policies in individual countries. Each ebb and flow produces its own challenges. The main precaution Latin American countries can take to protect themselves is to keep policies strong.

Financial systems

The importance of sound financial systems in reducing a country's vulnerability to financial shocks is indisputable. Latin American countries were ahead of the curve when they committed at their 1997 CHFI meeting to implement the Basel Core Principles. This commitment was symbolic of the increased attention to such issues in the wake of the Tequila crisis of 1995. The relative strength of banks in Latin America is probably one reason the region survived the financial turmoil of the past two years with less damage than occurred in Asia.

However, Latin American financial systems are small, which impedes growth. To encourage investment in domestic financial institutions, governments must maintain macroeconomic stability and nurture legal environments that protect property rights. At the same time, authorities need to establish robust regulatory and supervisory frameworks to ensure the soundness of financial systems. Changes are not going to occur overnight; they require continued work to implement and sustain. Nevertheless, they are critical to enhance the ability of Latin America to withstand potential financial market volatility.

Exchange rates

Other measures to reduce vulnerability are also required. To sustain confidence in the future, Latin America will need exchange rate regimes that can command the trust of domestic citizens and of foreign investors, accommodate regional and global integration, and remain resilient over time. There is a growing consensus that countries involved in the world capital market will need to avoid the "middle ground" of pegged exchange rates combined with discretionary monetary policies. It has become clear that fixed – but not firmly institutionalized – exchange rate regimes hold enormous risks for emerging market economies in a world where fast-flowing capital and insufficiently developed domestic financial systems coincide. At the same time, adoption of floating exchange rate regimes should not be used as a device to avoid implementing prudent macroeconomic policies.

The most extreme institutional monetary arrangement available to a country, of course, is the abandonment of its own currency. In this context, dollarization has been discussed as an alternative to floating and to the middle ground of adjustable pegs. The decision to make another country's currency one's own is hugely consequential for any country, and it is one that has to be considered carefully. On the one hand, dollarization offers the attractive promise of enhancing stability in the dollarizing country by importing the credibility and discipline of another country's policies in support of its own policies, and, thereby, also advancing its integration with the world economy. On the other hand, the country also must be prepared to embrace that discipline and to accept the potentially significant consequences of doing without the capacity independently to adjust its exchange rate or the direction of domestic interest rates.

U.S. authorities are open to dollarization by other countries. However, we have made clear that it would be inappropriate to adjust our own bank supervisory responsibilities to cover institutions in countries that adopt the dollar, to provide expanded access to the Federal Reserve's discount window, or to adjust the procedures or orientation of U.S. monetary policy in light of another country's decision to dollarize its monetary system. Any country contemplating dollarization will have to weigh carefully these considerations as well as many others.

More generally, countries must take care to avoid the trap of pegged exchange rate regimes that may appear to offer stability, but may in reality encourage large risks to be build up unnoticed. It is noteworthy, in this connection, that this year four Latin American countries have adopted flexible exchange rate regimes. But a great deal of the hard work remains to be done both to implement and stick to prudent macroeconomic policies, regardless of a country's exchange rate regime if a country is to capitalize upon the progress that has been made in liberalizing its economy and financial system.

National balance sheets

The risks associated with exchange rate fluctuations are only one factor that contributes to an economy's vulnerability to what Secretary Summers has called modern capital account crises. Governments need to think more broadly about their economies' exposure to all types of financial risk, and focus upon the prudent management of their national balance sheets. Sound management of the national balance sheet is a concept that is broader than the sovereign's own balance sheet and extends to assets and liabilities in both domestic and foreign currency. Sound balance sheet management is essential to help limit the risk that temporarily tight conditions in capital markets will trigger a deep contraction in domestic output.

In light of recent experience, it seems clear that weaknesses in the sovereign's own balance sheet need not be the central source of an economy's financial vulnerability. Risk exposures of banks, finance companies and individual firms, in various combinations, can set the stage for a generalized, reinforcing rush for the exit. It is also clear that private sector leverage and risk exposure can augment pressure on sovereign balance sheets both prior to and during a crisis.

Thus, borrowing and lending decisions that are individually prudent may nonetheless aggregate into vulnerabilities for a country. An individual corporate treasurer, for example, may decide that it is smart to borrow unhedged in foreign currency, or to remain exposed to commodity price declines. However, if all firms in the economy make the same bet, the resulting economy-wide unhedged exposure can contribute to the type of destabilizing dynamics we have seen recently in many countries, where a scramble for foreign currency makes a thin market thinner, and very one-sided.

The interesting question is how to reduce the risk that the conditions that can lead this type of dynamic get established in the first place. The policy challenges are a bit more complicated than those required for prudential management of the sovereign's liabilities alone, since the risks lie in the consolidated balance sheet of the nation overall. To reduce those risks, one has to think about how to influence the behavior of a diverse mix of private actors.

In determining the appropriate policy measures, there is room for creative thought; we do not have all the answers. We can say with some confidence that a sensible approach will require an integrated assessment of the refinancing and currency risks contained on the national balance sheet, as well as other significant sources of risk exposures. Many of these risks can currently be hedged in the capital markets, and even more will be as demands to spread more and more categories of risk lead to the creation of new hedging instruments. Other creative approaches can be explored. Commodity- price-based fiscal stabilization funds, such as Chile's CODELCO, for example, are the type of different approach that other commodity-dependent nations could usefully explore.

Reducing the aggregate risk in the national balance sheet also involves enhanced efforts to strengthen financial sectors. Such efforts include limiting the scope of the financial safety net, improving the prudential regulation and supervision of banks, and developing local capital markets in order to provide alternatives to bank finance. It is also important to avoid the distortions favoring what appear to be "cheap" financing terms on short-term foreign currency obligations that all to often contribute to future financial crises.

Finally, we must not forget the importance of managing the sovereign balance sheet itself. The Asian crises did not originate in sovereign balance sheets, but arguably the crises in Mexico five years ago, Russia last summer, and Brazil last fall did, largely due to excessive concentration on short-term borrowing. In the Brazilian case, it was the sovereign's balance sheet in domestic currency that was most relevant, but the point about potential vulnerability remains.

Conclusion

In conclusion, I leave you with three thoughts. First, Latin America on balance has made enormous progress over the Nineties to the benefit of its citizens and the United States. After weathering the storms of the past two years, it is well positioned to continue to move forward. Second, Latin America, along with many other countries, faces the challenges, as well as the opportunities, of global capital markets and potentially volatile financial flows. Third, to deal effectively with global financial markets in the new millennium, countries will have to maintain sound macroeconomic policies, of course, but they will also have to address vulnerabilities arising from financial systems that are not robust, exchange rate regimes that are not appropriate, and national balance sheets that are embedded with excessive systemic risks. To meet those challenges successfully, the public and private sectors throughout the Americas will have to continue to work together.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

EMBARGOED UNTIL 2:30 P.M.
November 18, 1999

CONTACT: Office of Financing
202/691-3550

TREASURY OFFERS 13-WEEK AND 26-WEEK BILLS

The Treasury will auction two series of Treasury bills totaling approximately $17,000 million to refund $15,223 million of publicly held securities maturing November 26, 1999, and to raise about $1,777 million of new cash.

In addition to the public holdings, Federal Reserve Banks for their own accounts hold $7,788 million of the maturing bills, which may be refunded at the highest discount rate of accepted competitive tenders. Amounts issued to these accounts will be in addition to the offering amount.

The maturing bills held by the public include $3,681 million held by Federal Reserve Banks 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 highest 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.

TreasuryDirect customers requested that we reinvest their maturing holdings of approximately $908 million into the 13-week bill and $694 million into the 26-week bill.

This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular for the Sale and Issue of Marketable Book-Entry Treasury Bills, Notes, and Bonds (31 CFR Part 356, as amended).

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

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Attachment

LS-252

HIGHLIGHTS OF TREASURY OFFERINGS OF BILLS
TO BE ISSUED NOVEMBER 26, 1999

November 18, 1999

Offering Amount	$9,000 million	$8,000 million
Description of Offering:		
Term and type of security	90-day bill	181-day bill
CUSIP number	912795 DJ 7	912795 DX 6
Auction date	November 22, 1999	November 22, 1999
Issue date	November 26, 1999	November 26, 1999
Maturity date	February 24, 2000	May 25, 2000
Original issue date	August 26, 1999	May 27, 1999
Currently outstanding	$11,387 million	$15,297 million
Minimum bid amount and 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 highest 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 Rate .... 35% of public offering

Maximum Award.................. 35% of public offering

Receipt of Tenders:

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

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

Payment Terms: By charge to a funds account at a Federal Reserve Bank on issue date, or payment of full par amount with tender. *TreasuryDirect* customers can use the Pay Direct feature which authorizes a charge to their account of record at their financial institution on issue date.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
November 17, 1999

CONTACT: Office of Financing
202/691-3550

THANKSGIVING HOLIDAY SCHEDULE FOR TREASURY'S WEEKLY BILL ANNOUNCEMENT

Since the regular announcement day for weekly bills falls on Thanksgiving Day next week, Treasury will release its announcement on Tuesday, November 23, 1999, at 2:30 p.m. This is consistent with the Bond Market Association's recommendations for a full market closing on Thanksgiving Day and an early closing on Wednesday, November 24.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

Text as Prepared for Delivery
November 19, 1999

REMARKS OF DEPUTY SECRETARY STUART E. EIZENSTAT BEFORE THE TREASURY ADVISORY COMMITTEE ON INTERNATIONAL CHILD LABOR ENFORCEMENT

I am pleased to be able to join you this morning. I want to thank all of you for the assistance you are giving us in this important area. Some of you have devoted your professional lives to the cause of human rights and worker rights. You are an inspiration. All of you bring a perspective that we at Treasury want to hear.

There are a few people I want to thank, even though they are not here. One is Senator Tom Harkin, who has taken the lead on this issue in the Congress along with Congressman Bernie Sanders, who was instrumental in obtaining the appropriation that will allow us to deploy more enforcement agents overseas. We look to this Committee for recommendations on how these funds can be used most productively. And I want to acknowledge the great efforts of my good friend Alexis Herman, the Secretary of Labor, whose Department has wide responsibilities throughout the area of child labor, who has been a strong presence in this field.

According to the ILO, an estimated 250 million children, some as young as five years old, are forced to work, some under conditions of great hazard. Through the efforts of many human rights, religious, and labor organizations, and the Clinton-Gore Administration, the issue has made its way onto the moral agenda. Many nations are addressing it, including our own, and often involving the private sector in a constructive way. The MOU covering the garment industry in Bangladesh is an example of such an initiative.

The President, by stressing the problem of child labor in both his 1998 and 1999 State of the Union address, has made this a major Administration priority. Under the fiscal 1998 appropriations, and President Clinton's Child Labor Action Plan, Treasury is assigned the overall task of keeping the products of forced or indentured child labor out of the country. We take this responsibility very seriously at both main Treasury and at the Customs Bureau. We shall rely of course on the expertise and the vast experience the Customs Service has in enforcing trade laws. Commissioner Kelly and Assistant Secretary Bresee are giving this issue a high priority in their enforcement work. The fact that Lis Bresee and Sam Banks are here shows how much we want to reach out to all the affected constituencies for your ideas and your support.

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In selecting the members of the Committee, we tried to achieve balance and diversity of background and viewpoint. All opinions are welcome here. But, we also wanted people committed to deal with this issue as an important national priority. You are all agreed on the importance of eliminating the abuses of child labor. If not, you would not be here. That you may have principled differences over means or strategy is no indication of lack of commitment on the issue. It is, indeed, important to your mission. As we have seen in the budget negotiations on Capitol Hill, as we saw this week in China, differences can often be reconciled through man's best friend, the compromise.

I am pleased that you have established a Subcommittee on Business Outreach. This is very important. We have a limited amount of funds for enforcement activities although we feel we have enough to meet current needs. They must be shared among competing priorities such as drug enforcement, enforcement of economic sanctions, and protection of intellectual property rights. We need to be able to leverage our own efforts with those of all concerned citizens, including corporate citizens. If we can make a determined law enforcement showing, companies and individuals will be persuaded to adopt voluntary methods, such as best practices and codes of conduct, in order to avoid statutory violations.

You meet at a time when the Senate, by a large bipartisan majority, has just ratified the International Labor Organization Convention to abolish the worst forms of child labor. It is not easy to get international agreements through the Senate and this shows the importance child labor has on our national political agendas. The signatories to this Convention are required to take immediate and effective measures to eliminate the worst forms of child labor. These include slavery, and practices that amount to slavery, such as the sale and trafficking of children, bonding of children by their parents and forced labor, and other forms of work which, by the way it must be done, are likely to harm the health, safety, or morals of children.

I realize that in some countries, child labor is deeply imbedded in traditional cultural and family patterns. But the nations where it is most prevalent are precisely the nations that can least afford, in the long run, to sustain it. This issue is not about sovereignty. It is about the future of the world's children. It is about whether a country will stay back or will advance into the new economy that is changing the patterns of all nations. Child labor is not just cruel and immoral.

It is also bad economics. It is bad development strategy. In the next century, which we shall enter just seven weeks from now, competitiveness and prosperity will not belong to nations that have small children knotting rugs and breaking bricks. They will come to those that can, with help from private investment and the many multilateral development institutions, develop an educated and skilled work force that can operate at the cutting edge of technology and that have the skill--economic, political, and cultural--to adjust to the global economic environment. The only way developing countries can move into the global economic mainstream is by developing, not exploiting, their human capital—and that means education and training from the youngest years through college and beyond. Child labor deprives a generation of the skills needed to thrive in the technological era in which we live. It consigns such countries to a wider and wider gap with countries like those in Southeast Asia, which invested in the young people.

We are elevating core labor standards, including the exploitation of child labor, in our trade agenda as we seek to create a Working Group on Trade and Labor within the WTO and to create greater ILO/WTO linkages. The European Union has suggested on ILO/WTO Forum, although outside the WTO. Those are the larger stakes involved in what you are helping us to do. I know that many of you have innovative strategies to accomplish this. I hope you will all join actively in the work of this committee, offering your ideas, discussing and debating the issues among yourselves, and coming up with what I know will be good advice.

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DEPARTMENT OF THE TREASURY
DEPARTMENT OF JUSTICE

For Immediate Release
November 23, 1999

Contact: Maria Ibanez, Treasury
(202) 622-2960
Gretchen Michael, Justice
(202) 517-2007

STATEMENT BY TREASURY SECRETARY LAWRENCE H. SUMMERS AND ATTORNEY GENERAL JANET RENO

In the past six years, many in the House and Senate have supported the Administration's efforts to put gun criminals behind bars as well as prevent them from getting guns in the first place. Measures, such as the Brady Law, the Assault Weapons Ban, and expanded crime gun tracing and coordinated federal and state prosecutions of gun crimes have contributed significantly to our nation's decrease in violent crime.

Despite broad support and evidence that measures such as the Brady Law help reduce crime, the House-Senate conference committee could not complete their work to produce a Juvenile Justice Bill containing important gun safety provisions. As the final Congressional session of the 20th century concludes, the passage of meaningful legislation to reduce gun violence was frustrated.

Gun violence will continue to threaten our communities and parents will continue to fear for their children's safety until the will of the American people is carried out by enacting common sense gun legislation in the next Congressional session. We look forward to working with the Congress to pass gun safety amendments that will make our communities safer as the new century begins.

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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

R IMMEDIATE RELEASE
rember 22, 1999

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Term:	90-Day Bill
Issue Date:	November 26, 1999
Maturity Date:	February 24, 2000
CUSIP Number:	912795DJ7

High Rate: 5.105% Investment Rate 1/: 5.256% Price: 98.724

All noncompetitive and successful competitive bidders were awarded :urities at the high rate. Tenders at the high discount rate were .otted 98%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 22,672,359	$ 7,055,974
Noncompetitive	1,334,802	1,334,802
PUBLIC SUBTOTAL	24,007,161	8,390,776 2/
Foreign Official Refunded	611,000	611,000
SUBTOTAL	24,618,161	9,001,776
Federal Reserve	4,153,180	4,153,180
Foreign Official Add-On	0	0
TOTAL	$ 28,771,341	$ 13,154,956

Median rate 5.090%: 50% of the amount of accepted competitive tenders tendered at or below that rate. Low rate 5.010%: 5% of the amount accepted competitive tenders was tendered at or below that rate.

-to-Cover Ratio = 24,007,161 / 8,390,776 = 2.86

Equivalent coupon-issue yield.
Awards to TREASURY DIRECT = $1,026,571,000

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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

ꝛ IMMEDIATE RELEASE
ember 22, 1999

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Term:	181-Day Bill
Issue Date:	November 26, 1999
Maturity Date:	May 25, 2000
CUSIP Number:	912795DX6

High Rate: 5.235% Investment Rate 1/: 5.466% Price: 97.368

All noncompetitive and successful competitive bidders were awarded
urities at the high rate. Tenders at the high discount rate were
otted 84%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 18,586,318	$ 4,345,118
Noncompetitive	1,074,916	1,074,916
PUBLIC SUBTOTAL	19,661,234	5,420,034 2/
Foreign Official Refunded	2,585,000	2,585,000
SUBTOTAL	22,246,234	8,005,034
Federal Reserve	3,635,000	3,635,000
Foreign Official Add-On	0	0
TOTAL	$ 25,881,234	$ 11,640,034

Median rate 5.230%: 50% of the amount of accepted competitive tenders
tendered at or below that rate. Low rate 5.130%: 5% of the amount
accepted competitive tenders was tendered at or below that rate.

-to-Cover Ratio = 19,661,234 / 5,420,034 = 3.63

Equivalent coupon-issue yield.
Awards to TREASURY DIRECT = $775,383,000

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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

Weekly Release of U.S. Reserve Assets

November 23, 1999

The Treasury Department today released U.S. reserve assets data for the week ending November 19, 1999.

As this table indicates, U.S. reserve assets totaled $72,068 million as of November 19, 1999, down from $72,339 million as of November 12, 1999.

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

1999 *Week Ending*	Total Reserve Assets	Gold Stock 1/	Special Drawing Rights 2/	Foreign Currencies 3/ ESF	Foreign Currencies 3/ SOMA	Reserve Position in IMF 2/
November 12, 1999	**72,339**	11,047	10,385	15,966	15,969	18,972
November 19, 1999	**72,068**	11,047	*10,336*	15,900	15,903	*18,882*

1/ Gold stock is valued monthly at $42.2222 per fine troy ounce. Values shown are as of September 30, 1999. The August 31, 1999 value was $11,046 million.

2/ SDR holdings and the reserve position in the IMF are based on IMF data and valued in dollar terms at the official SDR/dollar exchange rate. Consistent with current reporting practices, IMF data for November 12, 1999 are final. Data for SDR holdings and the reserve position in the IMF shown as of November 19, 1999 (in italics) reflect preliminary adjustments by the Treasury to the November 12, 1999 IMF data.

3/ Includes holdings of the Treasury's Exchange Stabilization Fund (ESF) and the Federal Reserve's System Open Market Account (SOMA). These holdings are valued at current market exchange rates or, where appropriate, at such other rates as may be agreed upon by the parties to the transactions.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED UNTIL 2:30 P.M.
November 23, 1999

Contact: Office of Financing
202/691-3550

TREASURY TO AUCTION CASH MANAGEMENT BILLS

The Treasury will auction approximately $28,000 million of 43-day Treasury cash management bills to be issued December 1, 1999.

Competitive and noncompetitive tenders for bills to be issued in the Treasury/Reserve Automated Debt Entry System (TRADES) will be received through the Federal Reserve System. Tenders will not be accepted for bills to be maintained on the book-entry records of the Department of the Treasury (*TreasuryDirect*). 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 highest discount rate of accepted competitive tenders.

The auction being announced today will be conducted in the single-price auction format. All competitive and noncompetitive awards will be at the highest discount rate of accepted competitive tenders.

This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular for the Sale and Issue of Marketable Book-Entry Treasury Bills, Notes, and Bonds (31 CFR Part 356, as amended).

NOTE: 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.

Treasury will assess its need to issue an additional cash management bill in mid-December in order to reach the announced year-end target cash balance of $70 billion.

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LS-261
Attachment

HIGHLIGHTS OF TREASURY OFFERING
OF 43-DAY CASH MANAGEMENT BILL

November 23, 1999

Offering Amount	$28,000 million
Description of Offering:	
Term and type of security	43-day Cash Management Bill
CUSIP number	912795 DC 2
Auction date	November 30, 1999
Issue date	December 1, 1999
Maturity date	January 13, 2000
Original issue date	July 15, 1999
Currently outstanding	$26,329 million
Minimum bid amount and multiples	$1,000
Submission of Bids:	
Noncompetitive bids	Accepted in full up to $1,000,000 at the highest accepted discount rate.
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.
Maximum Recognized Bid at a Single Rate	35% of public offering
Maximum Award	35% of public offering
Receipt of Tenders:	
Noncompetitive tenders	Prior to 12:00 noon Eastern Standard time on auction day
Competitive tenders	Prior to 1:00 p.m. Eastern Standard time on auction day
Payment Terms	By charge to a funds account at a Federal Reserve Bank on issue date, or payment of full par amount with tender.

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.
November 23, 1999

CONTACT: Office of Financing
202/691-3550

TREASURY OFFERS 13-WEEK AND 26-WEEK BILLS

The Treasury will auction two series of Treasury bills totaling approximately $17,000 million to refund $15,247 million of publicly held securities maturing December 2, 1999, and to raise about $1,753 million of new cash.

In addition to the public holdings, Federal Reserve Banks for their own accounts hold $7,890 million of the maturing bills, which may be refunded at the highest discount rate of accepted competitive tenders. Amounts issued to these accounts will be in addition to the offering amount.

The maturing bills held by the public include $2,703 million held by Federal Reserve Banks as agents for foreign and international monetary authorities, which may be refunded within the offering amount at the highest 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.

TreasuryDirect customers requested that we reinvest their maturing holdings of approximately $923 million into the 13-week bill and $768 million into the 26-week bill.

This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular for the Sale and Issue of Marketable Book-Entry Treasury Bills, Notes, and Bonds (31 CFR Part 356, as amended).

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

oOo

Attachment

LS-262

HIGHLIGHTS OF TREASURY OFFERINGS OF BILLS
TO BE ISSUED DECEMBER 2, 1999

November 23, 1999

Offering Amount	$9,000 million	$8,000 million
Description of Offering:		
Term and type of security	91-day bill	182-day bill
CUSIP number	912795 DK 4	912795 DY 4
Auction date	November 29, 1999	November 29, 1999
Issue date	December 2, 1999	December 2, 1999
Maturity date	March 2, 2000	June 1, 2000
Original issue date	March 4, 1999	December 2, 1999
Currently outstanding	$27,403 million	---
Minimum bid amount and 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 highest 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 Rate .... 35% of public offering

Maximum Award .... 35% of public offering

Receipt of Tenders:

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

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

Payment Terms: By charge to a funds account at a Federal Reserve Bank on issue date, or payment of full par amount with tender. *TreasuryDirect* customers can use the Pay Direct feature which authorizes a charge to their account of record at their financial institution on issue date.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
November 29, 1999

Contact: John Longbrake
(202) 622-2960

SECRETARY SUMMERS TO VISIT SOUTH AMERICA

Treasury Secretary Lawrence H. Summers will visit Argentina, Bolivia and Brazil during a four-day trip to South America, December 1 - 4.

The Secretary's tour will begin in Buenos Aires, Argentina, followed by stops in Santa Cruz, Bolivia, and Sao Paulo, Brazil, before culminating in Rio de Janeiro where the Secretary is scheduled to address the Inter-American Development Bank's (IDB) 40th Anniversary Conference. During the visit, Secretary Summers will meet with government officials in each of the three countries.

In addition to addressing the IDB, Secretary Summers will speak before the American Chamber of Commerce in both Buenos Aires and Sao Paulo.

<u>Thursday, December 2</u>
Treasury Secretary Lawrence H. Summers
Argentina-American Chamber of Commerce
Remarks
8 a.m. (local time)
Marriott Park Hotel, Salon Fiestes
Buenos Aires, Argentina

Treasury Secretary Lawrence H. Summers
Debt Reduction Agreement Signing
6 p.m. (local time)
Hotel Los Tajibos, Salon Convencionales
Santa Cruz, Bolivia

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Friday, December 3
Treasury Secretary Lawrence H. Summers
Brazil-American Chamber of Commerce
Remarks
3:30 p.m. (local time)
Gran Melia Hotel
Sao Paulo, Brazil

Saturday December 4
Secretary Lawrence H. Summers
Inter-American Development Bank 40th Anniversary Conference
10 a.m. (local time)
Remarks
Quitandinha
Petropolis, Brazil

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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

)R IMMEDIATE RELEASE
›vember 29, 1999

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Term:	91-Day Bill
Issue Date:	December 02, 1999
Maturity Date:	March 02, 2000
CUSIP Number:	912795DK4

High Rate: 5.200% Investment Rate 1/: 5.355% Price: 98.686

All noncompetitive and successful competitive bidders were awarded ›curities at the high rate. Tenders at the high discount rate were 'lotted 10%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 25,150,458	$ 7,520,558
Noncompetitive	1,283,048	1,283,048
PUBLIC SUBTOTAL	26,433,506	8,803,606 2/
Foreign Official Refunded	204,303	204,303
SUBTOTAL	26,637,809	9,007,909
Federal Reserve	4,019,955	4,019,955
Foreign Official Add-On	40,697	40,697
TOTAL	$ 30,698,461	$ 13,068,561

Median rate 5.180%: 50% of the amount of accepted competitive tenders ıs tendered at or below that rate. Low rate 5.090%: 5% of the amount : accepted competitive tenders was tendered at or below that rate.

.d-to-Cover Ratio = 26,433,506 / 8,803,606 = 3.00

' Equivalent coupon-issue yield.
Awards to TREASURY DIRECT = $1,002,838,000

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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

OR IMMEDIATE RELEASE
ovember 29, 1999

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Term:	182-Day Bill
Issue Date:	December 02, 1999
Maturity Date:	June 01, 2000
CUSIP Number:	912795DY4

High Rate: 5.330% Investment Rate 1/: 5.570% Price: 97.305

All noncompetitive and successful competitive bidders were awarded ecurities at the high rate. Tenders at the high discount rate were llotted 63%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 24,518,607	$ 4,455,815
Noncompetitive	1,061,926	1,061,926
PUBLIC SUBTOTAL	25,580,533	5,517,741 2/
Foreign Official Refunded	2,483,897	2,483,897
SUBTOTAL	28,064,430	8,001,638
Federal Reserve	3,870,000	3,870,000
Foreign Official Add-On	496,103	496,103
TOTAL	$ 32,430,533	$ 12,367,741

Median rate 5.325%: 50% of the amount of accepted competitive tenders as tendered at or below that rate. Low rate 5.240%: 5% of the amount f accepted competitive tenders was tendered at or below that rate.

id-to-Cover Ratio = 25,580,533 / 5,517,741 = 4.64

' Equivalent coupon-issue yield.
' Awards to TREASURY DIRECT = $825,687,000

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Department of the Treasury Bureau of Alcohol, Tobacco and Firearms

ATF NEWS

For Immediate Release
Contact: Jeffrey R. Roehm (202) 927-8500

Date: November 29, 1999

ATF ANNOUNCES ONLINE TECHNOLOGY TO STOP GUN TRAFFICKERS

Partnering with State and Local Law Enforcement to Reduce Violent Crime

Washington - Treasury Secretary Lawrence H. Summers joined John W. Magaw, Director of the Bureau of Alcohol, Tobacco and Firearms (ATF) today to launch Online LEAD, a new technology designed to aid law enforcement in its fight against illegal firearms traffickers. "Online LEAD" is the newest crime-fighting tool in ATF's "electronic crime fighting arsenal".

"Online LEAD takes our fight against gun traffickers into cyberspace," said Secretary Summers. "It gives federal, state, and local law enforcement officials throughout the country a new tool to help identify and arrest gun traffickers."

Online LEAD was created in February to enhance the ATF's information system that provides investigative leads to identify illegal firearms trafficking. The system will send up "red flags" on potential illegal firearms traffickers throughout the country.

Director Magaw commented, "With Online LEAD, ATF field offices nationwide will be able to assist our State and local law enforcement partners with real time access to Firearms Tracing System (FTS) data."

The FTS currently contains over 1 million crime gun traces and is updated continuously. This greatly enhances the field investigator's ability to quickly identify illegal firearms trafficking and interdict the supply of guns to the illegal market.

ATF and local law enforcement personnel have successfully used Online LEAD in a variety of locations. Firearms trafficking task forces in cities such as New York, Memphis, Atlanta, Baltimore and Washington, D.C. have been able to link the purchaser of a crime gun to crime guns recovered in other locations thus identifying potential illegal firearms traffickers.

To illustrate the importance of Online LEAD, Metropolitan Nashville Police Chief Emmett H. Turner cited a recent case where information obtained through Project LEAD identified the persons responsible for illegally trafficking a firearm used in the May 1996 murder of Officer Francis Scurry of his department. That firearm was one of approximately 400 firearms illegally trafficked by two people who were subsequently arrested and convicted for violations of the Federal firearms laws.

Online LEAD is available to all State and local law enforcement agencies at ATF field offices throughout the country.

Department of the Treasury Bureau of Alcohol, Tobacco and Firearms

Online LEAD Facts

- Online Lead is the investigative software used by ATF special agents, inspectors, and ATF Firearms Trafficking Task Force police officers throughout the U.S. This software can be used to access and sort firearms trace information in such a way that investigators can identify trends and patterns that can indicate the illegal trafficking of firearms.

- There are over 1 million traced firearms entries in the ATF National Tracing Center database.

- Online LEAD now updates crime gun trace data **every 24 hours**-data that special agents, inspectors, and State and local officers can use to identify illegal firearms trafficking. **A firearm trace completed today is available for use in an investigation tomorrow.**

- Online LEAD evolved from Project LEAD which later developed into E-LEAD, and was ATF's first effort at providing investigators access to crime gun trace data. This system utilized information that was stored on discs, and required that the information be shipped to ATF field offices, which proved to be slow, delaying valuable information from reaching field personnel in a timely manner. Online LEAD was released in February 1999 for field-testing, and is now available to all ATF personnel and State and local Task Force officers nationwide via ATF online computer technology.

- Online LEAD is operational in all 331 ATF field and area offices in the United States, Virgin Islands, Puerto Rico, and Guam.

- State and local police agencies can also have access to Online LEAD data through task force participation and other ATF partnerships. Online LEAD's remote accessibility allows ATF special agents and inspectors to take the Online LEAD data to the field whenever and wherever it might be needed.

- As more agencies begin comprehensive crime gun tracing, investigators will be able to identify additional multi-jurisdictional patterns of illegal firearms trafficking.

Online LEAD Facts

- For fiscal year 1999, there were 209,127 crime gun traces submitted to the National Tracing Center.
- Online LEAD will continue to evolve to meet the needs of the law enforcement community as they combat the illegal trafficking of firearms in their community.
- Online Lead is another example of ATF's mission to reduce violent crime, and assist state and local law enforcement in their efforts to reduce violent crime.

11/30/99

Stuart E. Eizenstat
Deputy Secretary
U.S. Department of the Treasury
Keynote Address
U.S. Alliance for Trade Expansion
WTO Ministerial
Seattle, Washington
November 29, 1999

I am very happy to be here, with so many people I know so well who believe in open markets and who have come to Seattle to help move our trade agenda forward. Today we acknowledge the importance of the role of the private sector and of NGOs in the dialogue on trade. The U.S. has been at the forefront of pushing for more openness, transparency, and accountability.

The United States is pleased to be able to host this week's Ministerial, in this beautiful city, whose economy was built upon trade and shipping, which looks westward to some of our most important markets, and which has gained fame around the world as a symbol of American technology in the new global economy.

I am happy to see Mack McLarty, who has served President Clinton in so many capacities, and is a keen supporter of our important economic relations with Latin America. I am delighted also to be here with my old friend Jerry Jasinowski. We worked together in President Carter's campaign and Administration. I have always enjoyed working with him, and I have watched with admiration as Jerry has emerged as a strong and responsible voice for the manufacturing sector.

In Seattle this week, we shall be preparing for a new trade round in a new century. Trade is no longer an esoteric international economic issue involving only an elite few -- as was the case when I was in the Carter White House and the Tokyo Round implementing legislation passed with only a handful of dissenting votes. Today, trade touches the lives of us all, business, workers, farmers, and consumers alike. But trade has unfairly become a whipping boy for all of those threatened by the rapid change that technology and a globalized economy are bringing about. Our goal in Seattle is to launch a broad-based, ambitious and robust new trade round for a new millennium which pursues the built-in agenda for the Uruguay Round, including agriculture and services, which includes new issues like e-commerce, and old issues like market access for non-agricultural products -- and that can be completed in a three-year period.

But President Clinton wants this to be a different Round, one that addresses concerns in developed and developing countries that will provide a human face to trade by stressing observance of core labor standards and environmental sensitivity, that will make the WTO more accountable and open, that focuses on jobs and development, broadly shared prosperity and improving the quality of life and work around the world. It should lead those who feel on the outside, both within the U.S. and in the developing nations, to join a shared consensus on the importance of increased trade and open markets.

If we can gain approval of a constructive agenda for negotiation, and if the negotiations succeed over the next three years, people of every nation will be able to participate in the benefits of open markets. Your Alliance has brought together hundreds of organizations, including some of the most influential in the private sector. Many have been strong supporters of trade for decades, from the Kennedy Round to the Uruguay Round and NAFTA. We need you even more today. We need your help to persuade Americans at the grass roots level that if they want to keep good economic times going; if they want rising wages in the U.S. and around the world; if they want to create greater environmental sensitivity in developing countries, open markets under global trade agreements is the way to make it happen. There are five things we must do. First, we must do a better job of educating the public about the benefits of trade in general. Second, we must demystify the WTO by explaining the importance of the WTO and of rules-based trade to the world economy. Third, we must lay out the new elements of our national trade agenda, especially those that relate to labor, the environment, and internet commerce. Fourth, we must give developing nations, particularly the least developed, a sense of equity in the multilateral trading system. And fifth, we must improve market access for industrial and agricultural products.

Ironically, more trade will actually foster the goals of those demonstrating here this week. Trade is one of the best antidotes to poverty and one of the most crucial ingredients to sustainable development. It creates new middle classes, for example in East Asia and Latin America, with rising wages and enhanced environmental interest, and a commitment to political openness and democracy. It is not a coincidence that new democracies of the '80's and '90's from South Korea, Taiwan, and Thailand to Argentina and most of Latin America have developed as trade and openness to the world created newly empowered middle classes with a democratic consciousness. An open, fair trading system for agriculture is among the world's strongest defenses against hunger. By reducing or eliminating export subsidies and trade-distorting domestic supports in agricultural and fisheries we protect the environment by removing incentives for over-use of land and over-fishing. Competition leads to more efficient use of scarce resources. At the same time, it is important that we hear each other's messages. Mainstream NGOs are right that the WTO should be more transparent, and should give increased attention to the environment and workers rights.

I would like to say a few words about each of the five challenges I mentioned above.

Explaining the Worldwide Benefits of Trade

If I have a single theme, it is that we should not be defensive here at Seattle. American business has no reason to be defensive about promoting free trade and open markets, and spreading the technology boom. Together with fiscal discipline that has led to the first budget surpluses in three decades, they have created unprecedented prosperity, moderate inflation, rising wages, increased job growth (nineteen and a half million new jobs since 1993) and low unemployment. To turn away from this successful combination of policies – including increased trade -- would be to threaten the pillars upon which our unprecedented prosperity has been erected. And those who would be hurt first would be our workers and the disadvantaged who have fully begun to enjoy the fruits of expanding opportunity. We must not put them at risk. Nor must -- or will -- the U.S. government be defensive about erecting and strengthening a rules-based trade system. This is a powerful instrument in assuring that countries will abide by their commitments. The U.S. brings and wins more trade cases than any other country in the world – for the benefit of our consumers, workers and businesses.

It is absolutely fallacious to argue that our workers cannot compete with lower wage workers abroad. By virtue of their skills and productivity, they do so successfully every day. Low wages are a sign of low skills and low productivity. The remarkable productivity and capability of our workers has spawned an unprecedented growth in our exports. And the imports we accept allow wages in poorer countries to improve.

No nation benefits more from increased trade than we do. We are the largest exporter of agricultural goods and manufactured goods in the world. Wages in U.S. export-related industries are 12.5 to 18 percent higher than elsewhere in the economy. Even the wages of unskilled workers in export-related industries are around 7 percent higher than unskilled workers in the rest of the economy. Trade now represents close to one quarter of our economy and has contributed to one-third of our economic growth since 1993. Trade has created millions of jobs that pay above average wages. It generates the competition, innovation and productivity that have helped sustain growth with low inflation. And since 96 percent of the world's population does not live in the U.S., trade is the key to the global growth and prosperity upon which America's own growth and prosperity will ultimately depend.

Other nations benefit equally. Eight trade rounds in the last fifty years have resulted in overall tariff reductions of over 90 percent. In Western Europe, tariffs have been reduced to zero internally and the percentage of per capita income attributable to trade has doubled. One measure of the success of the Common Market and the European Union in improving living standards is the number of nations applying to join the EU today. As for the developing countries, their share of world trade has risen from one-quarter to one-third since the Uruguay Round began. In Asia, hundred of millions of people have been lifted from poverty by investments that would not have been made had nations kept trade barriers high.

Trade between nations promotes peace between nations. Between 1870 and 1945, France and Germany fought each other in three wars, with devastating results. Today, their economies are intertwined so closely it is inconceivable they would go to war again. The nations of the Middle East trade far more outside their region than they do with one another. Only seven percent of all of their trade is within this region. If they could develop greater trading opportunities, they too might find it easier to stay at peace.

Reduction of trade barriers was also a major factor in the victory of the free market system over the Communist system, which helped to end the Cold War. The former Soviet Union did little to encourage open trade among its satellites. Western Europe formed the Common Market. When the people of Eastern Europe saw the growing disparity between their standard of living and that of free market nations, achieved in large part by reducing traditional trade barriers, they had a powerful incentive to break free from totalitarian rule.

Every country wishes to export more of its products around the globe. But that means countries must also be receptive to fairly traded imports. There can be no one-way street for trade. Imports also serve multiple benefits in and of themselves. In the modern economy, trade and technology are synergistic. Instant communications and rapid transportation make it possible for flowers grown in the Andes and fish caught in the waters off Norway to appear fresh on American tables within hours. Imports allow our consumers greater choice, at lower prices. They help make our companies remain competitive and provide cheaper inputs for the products we produce and export, including high-tech products. Equally important, imports allow foreigners to earn the dollars they need to buy our food and fiber, our airplanes and software, adding good paying jobs to the economy of Washington State and every other state in the country.

Demystifying the WTO

The WTO is a new organization. Few Americans know what it does or how it works. The WTO is not the advance guard of world government or a cabal between multinational corporations and governments to exploit workers and despoil the environment. The truth is much more mundane, but critically important. The WTO is a body of rules, written through negotiations between sovereign governments, which are not binding on any nation until they have been ratified by the nation's sovereign processes. The rules and procedures simply assure that nations conduct their economic interactions fairly and in compliance with the obligations they have undertaken. Its procedures are replete with opportunities for hearings, appellate review, and settlement. Without the WTO, there might well be a free-for-all down to the least common denominator. The WTO does not undermine sovereignty. Nations are allowed to take actions to preserve their environment and the health of their people. Nations can take protective action when other nations refuse to adhere to the rules after having full opportunity to be heard. I believe that when people know the real WTO instead of the phantom, they will regard its work in a better light.

But it is important for the WTO to be demystified. This means that it should adopt the transparency and openness reforms President Clinton has suggested, which will permit NGOs and other interested parties to participate in WTO processes.

Labor, the Environment, E-Commerce and Biotechnology

Because the WTO is new, there are some important constituencies with whom it has not fully connected. One is labor. For forty years, the U.S. has worked to raise international labor standards at the same time as we were establishing an open trading sytem. We have promoted open markets, core labor standrds, strong safety nets and high standards of workplace health and safety. We believe that open trade and rising living standards and working conditions reinforce each other.

We should recognize, however, that many workers and their representatives do not think the WTO is interested in the concerns they have about free trade. It is important that the WTO strengthen its credibility and legitimacy among labor and its representatives. During the first ministerial in Singapore, all members of the WTO renewed their commitment observing internationally recognized core labor stadards, and supported closer collaboration between the WTO and the ILO. At Seattle, we want to build on this concensus. Our govenrment will press for a Working Group on International Trade and Labor in the WTO to consider key issues such as the effect of increased trade and investment on employment, social protections and abusive child labor. We will also work to improve cooperation beweeen the WTO and the ILO.

It is critical that you in industry help make the case by supporting important aspects of our labor agenda -- such as a trade and labor working group -- and that you find other ways to reach out through your associations to labor, environmental and other NGOs to find common ground.

We also want the WTO to show a greater sensitivity to the environmental community. On November 16, President Clinton and Vice President Gore outlined a strategy to ensure that efforts to expand trade are consistent with high levels of environmental protection and serve the broader goal of sustainable development. The President issued an Executive Order to require environmental reviews of proposed trade agreements; he released a Declaration of Environmental Trade Policy, which elaborates the principles to guide U.S. negotiators at the WTO; and he enunciated a strategy to promote developing country environmental practices through technical assistance.

Our government wants the WTO panels which adjudicate trade disputes to operate with greater transparency. They should allow environmental groups as well as other interested parties an opportunity to present their views so that all will feel they have had a fair say. We promote good environmental practices by reducing subsidies in areas like agriculture and fisheries, subsidies that abuse the land and exhaust fish stocks. No one stands to benefit more than the environmental community from the removal of artificial subsidies.

We also will press for a permanent worldwide moratorium on customs duties on electronic commerce transactions as an element of a continuing WTO work program to keep the electronic marketplace fo the future free of inappropriate international trade barriers. We want a concrete deliverable now--a continued moratorium on e-commerce tariffs. We also seek forbearance from unnecessary regulation of E-commerce, applicability of WTO rules to E-commerce and clarification of the relationship of the Internet to existing GATS commitments.

We also seek a WTO working party for agricultural products of new technologies to develop and elaborate WTO disciplines for approval processes for these agricultural products.

Developing Countries

It is crucial that we launch a Round which enables the least developed countries to reap the full benefit of the multilateral trading system. We have a multi-pronged approach to assist developing nations. First, we have taken the lead on bilateral debt reduction and in developing the enhanced HIPC initiative which will expand debt relief to additional heavily-indebted poor countries.

Second, we support enhanced market access for products from the least developed countries through existing preference programs. Our GSP program and our new proposals embodied in pending Africa and CBI legislation would be a step in achieving this result. We hope other WTO members, including some developing countries, will accord least developed countries similar treatment.

Third, while we are not prepared to reopen the Uruguay Round negotiations or support a wholesale extension of transition periods, we do recognize that a number of developing countries have had difficulty implementing all of their objectives from the Uruguay Round.

Fourth, we support greater efforts to assist developing countries in capacity building to meet their trade objectives, comply with their trade obligations, and to be better integrated into the world economy.

We are prepared to do these steps both from a perspective of fairness and equity to the world's poorest nations but also because these are countries with the greatest growth potential to become customers of U.S. products in a new millennium.

Market Access

The U.S. is ready to have a comprehensive market access negotiation on agricultural and non-agricultural products provided that accelerated tariff liberalization negotiations are part of the package. ATL can be achieved now and implemented provisionally pending completion of the broader market access negotiations. The principles for the negotiations must ensure effective market openings and the mandate must be equally ambitious for agricultural and non-agricultural products. World agricultural tariffs average 50 percent – five times higher than U.S. rates – and reduce opportunities for farmers in the U.S. and around the world.

These are some of the issues on which we need your help this week. We are also going to need your help in promoting the open markets agenda next year. This includes NTR status for China, so that nation can become a member of the WTO, under the terms of the agreement brilliantly negotiated by Charlene Barshefsky along with Gene Sperling. It also means the African Trade Initiative and the Caribbean Trade Initiative. You must be in the vanguard in explaining their benefits and more broadly the benefits of trade to Congress and the American people.

We look forward to working with the Alliance and its constituent organizations, as we have done so often and so productively in the past. We have won many victories together over the past few years. We shall continue to do so, because history shows we are on the right side. I have spent a considerable part of my career in public life working shoulder-to-shoulder with many of you in this room and fighting alongside those who believe that trade is good for America and the world. We have a great deal of which to be proud. But the fight is just beginning. I look forward to this week, and to everything that we together will do in the future.

Thank you very much.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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Weekly Release of U.S. Reserve Assets

November 30, 1999

The Treasury Department today released U.S. reserve assets data for the week ending November 26, 1999.

As this table indicates, U.S. reserve assets totaled $71,906 million as of November 26, 1999, down from $72,128 million as of November 19, 1999.

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

1999 *Week Ending*	Total Reserve Assets	Gold Stock 1/	Special Drawing Rights 2/	Foreign Currencies 3/ ESF	Foreign Currencies 3/ SOMA	Reserve Position in IMF 2/
November 19, 1999	**72,128**	11,047	10,361	15,900	15,903	18,916
November 26, 1999	**71,906**	11,049	*10,126*	16,121	16,123	*18,487*

1/ Gold stock is valued monthly at $42.2222 per fine troy ounce. Values shown are as of October 31, 1999. The September 30, 1999 value was $11,047 million.

2/ SDR holdings and the reserve position in the IMF are based on IMF data and valued in dollar terms at the official SDR/dollar exchange rate. Consistent with current reporting practices, IMF data for November 19, 1999 are final. Data for SDR holdings and the reserve position in the IMF shown as of November 26, 1999 (in italics) reflect preliminary adjustments by the Treasury to the November 19, 1999 IMF data.

3/ Includes holdings of the Treasury's Exchange Stabilization Fund (ESF) and the Federal Reserve's System Open Market Account (SOMA). These holdings are valued at current market exchange rates or, where appropriate, at such other rates as may be agreed upon by the parties to the transactions.

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*U.S. Government Printing Office 1998 - 619-55

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
November 30, 1999

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 43-DAY BILLS

Term:	43-Day Bill
Issue Date:	December 01, 1999
Maturity Date:	January 13, 2000
CUSIP Number:	912795DC2

High Rate: 5.30 % Investment Rate 1/: 5.42 % Price: 99.367

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 33%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 70,933,000	$ 28,004,500
Noncompetitive	1,000	1,000
TOTAL	$ 70,934,000	$ 28,005,500

Median rate 5.28 %: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 5.23 %: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 70,934,000 / 28,005,500 = 2.53

1/ Equivalent coupon-issue yield.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

EMBARGOED UNTIL 2:30 P.M.
December 2, 1999

CONTACT: Office of Financing
202/691-3550

TREASURY OFFERS 13-WEEK, 26-WEEK, AND 52-WEEK BILLS

The Treasury will auction three series of Treasury bills totaling approximately $27,000 million to refund $25,255 million of publicly held securities maturing December 9, 1999, and to raise about $1,745 million of new cash.

In addition to the public holdings, Federal Reserve Banks for their own accounts hold $12,987 million of the maturing bills, which may be refunded at the highest discount rate of accepted competitive tenders. Amounts issued to these accounts will be in addition to the offering amount.

The maturing bills held by the public include $4,469 million held by Federal Reserve Banks as agents for foreign and international monetary authorities, which may be refunded within the offering amount at the highest discount rate of accepted competitive tenders. Additional amounts may be issued for such accounts if the aggregate amount of new bids exceeds the aggregate amount of maturing bills. For purposes of determining such additional amounts, foreign and international monetary authorities are considered to hold $3,735 million of the original 13- and 26-week issues and $734 million of the original 52-week issue.

TreasuryDirect customers requested that we reinvest their maturing holdings of approximately $899 million into the 13-week bill, $709 million into the 26-week bill, and $472 million into the 52-week bill.

This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular for the Sale and Issue of Marketable Book-Entry Treasury Bills, Notes, and Bonds (31 CFR Part 356, as amended).

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

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HIGHLIGHTS OF TREASURY OFFERINGS OF BILLS
TO BE ISSUED DECEMBER 9, 1999

December 2, 1999

Offering Amount	$9,000 million	$8,000 million	$10,000 million
Description of Offering:			
Term and type of security	91-day bill	182-day bill	364-day bill
CUSIP number	912795 DL 2	912795 DZ 1	912795 EJ 6
Auction date	December 6, 1999	December 6, 1999	December 7, 1999
Issue date	December 9, 1999	December 9, 1999	December 9, 1999
Maturity date	March 9, 2000	June 8, 2000	December 7, 2000
Original issue date	September 9, 1999	December 9, 1999	December 9, 1999
Currently outstanding	$11,873 million	---	---
Minimum bid amount and multiples	$1,000	$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 highest 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 Rate .... 35% of public offering

Maximum Award .... 35% of public offering

Receipt of Tenders:

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

Payment Terms .... By charge to a funds account at a Federal Reserve Bank on issue date, or payment of full par amount with tender. *TreasuryDirect* customers can use the Pay Direct feature which authorizes a charge to their account of record at their financial institution on issue date.

ederal financing bank NEWS
WASHINGTON, D.C. 20220

Press 202-622-2960
FFB 202-622-2450

FEDERAL FINANCING BANK October 31, 1999

Kerry Lanham, Secretary, Federal Financing Bank (FFB), announced the following activity for the month of October 1999.

FFB holdings of obligations issued, sold or guaranteed by other Federal agencies totaled $42.5 billion on October 31, 1999, posting a decrease of $649.9 million from the level on September 30, 1999. This net change was the result of a decrease in holdings of agency debt of $675.3 million, in holdings of agency assets of $90.0 million, and an increase in holdings of agency guaranteed loans of $115.4 million. FFB made 64 disbursements during the month of October. FFB also received 19 prepayments in October.

Attached to this release are tables presenting FFB October loan activity and FFB holdings as of October 31, 1999.

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FEDERAL FINANCING BANK
OCTOBER 1999 ACTIVITY

Borrower	Date	Amount of Advance	Final Maturity	Interest Rate
ENCY DEBT				
.S. POSTAL SERVICE				
.S. Postal Service	10/01	$2,450,000,000.00	10/04/99	4.950% S/A
.S. Postal Service	10/01	$220,000,000.00	10/04/99	5.000% S/A
.S. Postal Service	10/04	$2,700,000,000.00	10/05/99	5.002% S/A
.S. Postal Service	10/04	$246,300,000.00	10/05/99	4.992% S/A
.S. Postal Service	10/05	$2,525,000,000.00	10/06/99	5.000% S/A
.S. Postal Service	10/05	$55,500,000.00	10/06/99	4.982% S/A
.S. Postal Service	10/06	$2,300,000,000.00	10/07/99	4.992% S/A
.S. Postal Service	10/06	$90,000,000.00	10/07/99	4.940% S/A
.S. Postal Service	10/07	$2,000,000,000.00	10/08/99	4.982% S/A
.S. Postal Service	10/07	$223,600,000.00	10/08/99	4.960% S/A
.S. Postal Service	10/08	$2,100,000,000.00	10/12/99	4.940% S/A
.S. Postal Service	10/08	$253,400,000.00	10/12/99	4.937% S/A
.S. Postal Service	10/12	$1,875,000,000.00	10/13/99	4.960% S/A
.S. Postal Service	10/12	$116,200,000.00	10/13/99	5.055% S/A
.S. Postal Service	10/13	$1,400,000,000.00	10/14/99	4.937% S/A
S. Postal Service	10/13	$308,000,000.00	10/14/99	5.107% S/A
S. Postal Service	10/14	$1,275,000,000.00	10/15/99	5.055% S/A
S. Postal Service	10/14	$211,700,000.00	10/15/99	5.148% S/A
S. Postal Service	10/15	$2,050,000,000.00	10/18/99	5.107% S/A
S. Postal Service	10/15	$298,600,000.00	10/18/99	5.166% S/A
S. Postal Service	10/18	$2,295,000,000.00	10/19/99	5.148% S/A
.S. Postal Service	10/18	$34,000,000.00	10/19/99	5.273% S/A
.S. Postal Service	10/19	$2,125,000,000.00	10/20/99	5.166% S/A
.S. Postal Service	10/19	$290,200,000.00	10/20/99	5.273% S/A
.S. Postal Service	10/20	$2,000,000,000.00	10/21/99	5.273% S/A
.S. Postal Service	10/20	$348,700,000.00	10/21/99	5.273% S/A
.S. Postal Service	10/21	$1,800,000,000.00	10/22/99	5.273% S/A
.S. Postal Service	10/21	$420,500,000.00	10/22/99	5.262% S/A
.S. Postal Service	10/22	$1,790,000,000.00	10/25/99	5.273% S/A
.S. Postal Service	10/22	$262,900,000.00	10/25/99	5.187% S/A
.S. Postal Service	10/25	$1,650,000,000.00	10/26/99	5.262% S/A
.S. Postal Service	10/25	$232,600,000.00	10/26/99	5.263% S/A
S. Postal Service	10/26	$1,400,000,000.00	10/27/99	5.187% S/A
S. Postal Service	10/26	$205,300,000.00	10/27/99	5.273% S/A
S. Postal Service	10/27	$1,175,000,000.00	10/28/99	5.263% S/A
S. Postal Service	10/27	$259,600,000.00	10/28/99	5.263% S/A
S. Postal Service	10/28	$875,000,000.00	10/29/99	5.273% S/A
S. Postal Service	10/28	$363,700,000.00	10/29/99	5.231% S/A
S. Postal Service	10/29	$1,700,000,000.00	11/01/99	5.263% S/A
S. Postal Service	10/29	$403,800,000.00	11/01/99	5.239% S/A

FEDERAL FINANCING BANK
OCTOBER 1999 ACTIVITY

Borrower	Date	Amount of Advance	Final Maturity	Interest Rate
VERNMENT-GUARANTEED LOANS				
ENERAL SERVICES ADMINISTRATION				
CTC Building	10/26	$106,278.00	11/02/26	6.688% S/A
EPARTMENT OF EDUCATION				
incoln University	10/05	$8,100,000.00	1/02/30	6.253% S/A
incoln University	10/05	$1,695,750.00	1/02/15	6.065% S/A
URAL UTILITIES SERVICE				
urke-David Elec. #494	10/01	$774,000.00	1/03/33	6.251% Qtr.
arshalls Energy Co. #458	10/01	$360,000.00	1/02/18	6.706% Qtr.
outheastern Indiana #496	10/07	$1,900,000.00	1/03/33	6.378% Qtr.
odington-Clark Elec. #551	10/08	$500,000.00	1/02/01	5.431% Qtr.
eminole Electric #416	10/13	$24,000,000.00	6/30/08	6.208% Qtr.
ed River Valley #484	10/15	$500,000.00	1/03/33	6.511% Qtr.
Pittsburgh Tele. #449	10/18	$2,104,000.00	12/31/12	6.201% Qtr.
rth Star Elec. #495	10/18	$802,000.00	1/03/33	6.451% Qtr.
en Electric #525	10/18	$3,000,000.00	1/02/01	5.615% Qtr.
i-State E.M.C. #503	10/18	$1,000,000.00	1/03/33	6.451% Qtr.
abama Electric #431	10/19	$314,000.00	1/02/24	6.571% Qtr.
en Electric #525	10/19	$3,000,000.00	1/02/01	5.597% Qtr.
abama Electric #393	10/20	$53,000.00	12/31/14	6.360% Qtr.
abama Electric #507	10/20	$48,044,000.00	12/31/25	6.616% Qtr.
abama Electric #508	10/20	$714,000.00	1/03/23	6.616% Qtr.
hnson County Elec. #482	10/21	$2,200,000.00	12/31/31	6.542% Qtr.
rroll Elec. #488	10/22	$500,000.00	12/31/08	6.299% Qtr.
'and Elec. Coop. #546	10/22	$1,062,546.00	1/03/34	6.419% Qtr.
Indiana Rural Elec. #548	10/22	$500,000.00	1/03/34	6.419% Qtr.
lmew-Wayne Elec. #455	10/25	$500,000.00	12/31/09	6.288% Qtr.
minole Electric #416	10/27	$23,970,000.00	6/30/10	6.337% Qtr.

S/A is a Semiannual rate.
Qtr. is a Quarterly rate.

FEDERAL FINANCING BANK HOLDINGS
(in millions of dollars)

Program	October 31, 1999	September 30, 1999	Monthly Net Change 10/1/99-10/31/99	Fiscal Year Net Change 10/1/99-10/31/99
Agency Debt:				
U.S. Postal Service	$5,603.8	$6,279.1	-$675.3	-$675.3
Subtotal*	$5,603.8	$6,279.1	-$675.3	-$675.3
Agency Assets:				
FmHA-RDIF	$3,410.0	$3,410.0	$0.0	$0.0
FmHA-RHIF	$7,035.0	$7,125.0	-$90.0	-$90.0
DHHS-HMO	$1.7	$1.7	$0.0	$0.0
DHHS-Medical Facilities	$3.2	$3.2	$0.0	$0.0
Rural Utilities Service-CBO	$4,598.9	$4,598.9	$0.0	$0.0
Subtotal*	$15,048.8	$15,138.8	-$90.0	-$90.0
Government-Guaranteed Lending:				
DOD-Foreign Military Sales	$2,608.3	$2,610.9	-$2.7	-$2.7
DoEd-HBCU+	$20.8	$11.0	$9.8	$9.8
DHUD-Community Dev. Block Grant	$12.9	$13.6	-$0.7	-$0.7
DHUD-Public Housing Notes	$1,419.9	$1,419.9	$0.0	$0.0
General Services Administration+	$2,405.0	$2,404.9	$0.1	$0.1
DOI-Virgin Islands	$16.1	$16.1	$0.0	$0.0
DON-Ship Lease Financing	$1,138.7	$1,138.7	$0.0	$0.0
Rural Utilities Service	$13,997.8	$13,885.0	$112.8	$112.8
SBA-State/Local Development Cos.	$190.0	$193.9	-$3.9	-$3.9
DOT-Section 511	$3.7	$3.7	$0.0	$0.0
Subtotal*	$21,813.1	$21,697.7	$115.4	$115.4
Grand total*	$42,465.7	$43,115.6	-$649.9	-$649.9

* 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
Text as prepared for delivery
December 3, 1999

"BRAZIL, LATIN AMERICA AND THE UNITED STATES AT THE TURN OF THE CENTURY"
TREASURY SECRETARY LAWRENCE H. SUMMERS
REMARKS TO THE AMERICAN CHAMBER OF COMMERCE
SAO PAULO, BRAZIL

Thank you. I'm glad to be here at such a crucial moment for our two countries and for the global economy.

If the trials of the past year have reaffirmed anything it is the strength of the ties that bind the United States and Brazil - and bind Brazil and all of our hemisphere to the broader global economy. In days gone by, many in Latin America used to refer to the Colossus of the North. Today, we in Washington know that if there is a Colossus of the South it is Brazil.

Brazil's transformation in this last decade of the 20th century has been unique. But its core elements have echoes around the world. Powerful forces are creating a new global economy for the 21st century: one with enormous opportunities for improving the lives of the world's people, but that also brings new challenges and risks.

When economic historians look back at this period, they will identify three developments driving the creation of this new world:

- The global move away from centralized, state-led development – toward a greater reliance on markets and the power of private enterprise.
- Revolutions in communications and information technologies that are bringing people and economies together in ways that were unimaginable even a few years ago.
- And the dawn of an age of emerging markets, with countries where more than three billion live reversing decades of stagnation and seeing rapid growth in incomes.

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All of us – in the United States, in Brazil and around the world – will be tested by these developments and the enormous changes that they set in train. The kind of standards of living and security that our people are able to enjoy in the future will depend in large part on how we meet that test.

Against this backdrop, I would like to reflect today on three topics:

- First, some of the lessons of the financial crisis that the world and Brazil have come through in the past few years.
- Second, the broader prerequisites for an effective national economic strategy in this new global marketplace.
- And third, I would like to reflect briefly on our common stake in building a strong and stable global financial system and in meeting the broader challenges that globalization presents.

I. Lessons of the Crisis

The past few years have been a difficult period whose causes and implications economists and others will be debating for years to come. Some of the mechanisms of these financial crises were 21st century. But in many ways, the root cause was as old as finance itself: too much money borrowed, on the basis of too little capacity to repay. And the right response to crisis, once it struck, was equally timeless – depending above all on a government's capacity to act decisively to restore confidence and growth.

Our support for the exceptional international financial package that was mobilized for Brazil last year – and especially, our own $5 billion bilateral contribution to that package – was a reflection of the enormous stake that we have in Brazil's success. It was equally a reflection of our confidence that President Cardoso and his team would do what was necessary to put the economy back on track.

The fact that Brazil is already starting to repay some of that financing – indeed, announced yesterday that it will repay the full $3.2 billion in bilateral financing that is coming due later this month – only re-affirms that our confidence was not misplaced.

Indeed, looking around the world today, while there are certainly important caveats and risks, we can say that the crisis economies whose governments were able to respond decisively and with international official support have been well rewarded.

Consider:

- In Korea, net foreign reserves have risen to more than $65 billion. And private forecasters expect the economy to grow this year by more than 8 percent.

- In Thailand, net reserves are now hovering close to $30 billion. Overnight interest rates are below 1 percent. And private sector forecasts predict growth of 3 or 4 percent this year.

Here in Brazil, inflation over the last ten months has not risen back to high levels, as many feared following the devaluation of the *real*. And the recession is proving much shorter and shallower than many expected. Private forecasters expect that the economy may even show modest growth in 1999, compared with the decline of 4 percent that was expected only 6 months ago. The forecast next year is for solid growth.

Almost all of Latin America has been affected by these crises, with a recession that has left few untouched. But after a decade of reforms, none of its major economies has changed course. Growth in the region should resume next year, with private sector forecasts of upwards of 3 percent growth in the largest economies. And Latin American sovereign bond spreads have been steadily narrowing for several months.

II. Core Ingredients for National Economic Success

Brazil's contribution to the transformed global picture is one on which I will be congratulating President Cardoso and his team during my stay. But we all know that there is an important difference between getting out of the intensive care unit, and leading a full and healthy life. The challenge for Brazil and others in the region - for all their recent achievements - is to combine financial stability with strong inclusive growth.

What does this require in a new global economy? Let me highlight three core ingredients that have been the central emphasis of the Clinton administration and - I believe—very important to the economic turn-around that Americans have enjoyed in the 1990s.

1. A Solid Fiscal Foundation

This new economy is growing newer by the day. But new techniques and financial instruments cannot substitute for old-fashioned fiscal virtues. As we have learned in the United States in the 1980s and 1990s, ultimately, sustained macro-economic stability and growth in any country depends on government over time matching its perception of what the state needs to do to the capacity to mobilize the resources necessary to achieve that.

Until these two are matched, problems will inevitably arise - whether in the form of inflation, excessive real interest rates, or an excessive dependence on foreign capital that periodically raises questions about the long-term capacity to repay. And enduring growth and stability will likewise remain in doubt.

The critical importance of a solid fiscal foundation for growth was a major topic of discussion when I met with the incoming economic team in Argentina earlier this week. It will be important for the success of every country in this region and, as the authorities recognize, it will be crucially important for Brazil.

We know from our own experience how difficult it can be to bring a government's aspirations and its resources back together when they have long been misaligned. Achieving it here in Brazil will depend on the Administration's commitment to build on the improvements that we have seen in the past year to achieve lasting pension system reform and building a more sustainable fiscal relationship between different tiers of government. But success will equally depend on the commitment of those with whom they the Administration will need to work - both inside and outside the public sector and in every level of government.

2. *Establishing a Framework for Markets to Operate*

If changing expectations and capacities in the public sector is the first ingredient of economic success in this new economy - then changing them in the private sector must be the second. The right macro-economic policies can lift a large burden from the economy. But without efforts to support the market system as it evolves, we will none of us be able to realize our full economic potential.

The new paradigm of public policy in our time is one based on supporting not supplanting the market, and on establishing institutions that can make the private sector an attractive and profitable place to be - and thus the engine of economic growth.

What does that require? Here in Brazil you talk about reducing the "Brazil cost" but the agenda that is captured in that term is not specific to Brazil:

- Completing the successful transfer of public industries into private hands. Brazil has recently made remarkable headway in privatizing telecommunications, power, and state banks. But all recognize that there is further to go. I will highlight in my discussions with officials that the program needs to press forward in the next year despite the delays that hampered the government in this area in 1999.

- Building a strong and efficient domestic financial sector that can channel financial resources to all that will use them well - both through continued reform of public sector financial institutions and by helping the private financial sector to develop its capacity to provide long-term finance to business and consumers.

- And, crucially, building the intangible infrastructure for markets: including strong and consistent norms of transparency and integrity in both the public and private sector; respect for contracts and effective means of enforcing them; continued efforts to root out corruption; and a strong and enduring rule of law.

2. Investing in People

Macro-economic virtue, the right market institutions - in the competition for economic opportunity in a more global economy these will be crucial assets for any country. But in a world in which capital, and business can move, the most distinctive asset of any country will increasingly be its people - and the quality of investments in people will be an increasingly important determinant of national economic success.

That is why President Clinton, since the very start of his Administration, has always placed such emphasis on investments in people. And that is why President Cardoso has been so right to make education and social inclusion such an important part of his mission in government.

President Clinton has spoken often about the need to broaden the circle of economic opportunity to include all of our citizens. That must be a moral imperative for both of our nations today. But it is equally an economic imperative at a time when the same forces that are bringing the world's economies together are also making our internal domestic economies more interconnected. Increasingly, in such an environment, an economy's strength overall will be limited by the strength of its weakest parts.

In approaching these issues, two lessons of recent global experience bear emphasis:

- We have learned - or been reminded - that without major public efforts, too little will happen to reduce poverty; too few children will learn to read; and basic health care will not be provided.

- At the same time, we have learned equally that public bureaucracies evaluated only on the basis of inputs and run for the convenience of its administrators can absorb large amounts of public money without producing tangible benefits for people.

As President Clinton, President Cardoso and others discussed in Florence last month, in all our countries the answer to this dilemma must lie in bringing to all of our core public sector services the same emphasis on innovation, quality service and the customer that the best of our private sector now achieves.

I am told that the Sao Paulo American Chamber of Commerce has recognized its own stake in – and potential contribution – to this effort, in its work helping to develop effective low-cost ways to improve the quality of Brazilian education. Equally, public sector innovations such as the expanding program of government grants to help keep children in school and to eliminate child labor have given us a glimpse of what a concerted application of these lessons in Brazil might achieve.

The recent study indicating that close to one half of university students were now the children of parents who did not finish the first year of secondary school must be good news to all who care about the democratization of economic opportunity in Brazil and the national economic opportunities that that would bring. But here, too, there can be little room for complacency, when more than 730,000 children between the ages of 7 and 14 are estimated to be working on the land or in workshops instead of learning to read and write in school.

III. Shared Challenges: Strengthening the Global Financial System and Managing Global Integration

If successful competition in a world market is the national economic challenge of a millennium generation – then successful international cooperation must be its global one. Let me highlight two key areas where strong collaboration between our two nations and globally will be especially important: building a strong and stable international financial architecture and managing regional and global economic integration.

1. Building a Strong Global Financial Architecture

With the storms clouds more distant and confidence on the mend – we must not become complacent about building a stronger global financial system for the future. As the United States has long stressed, reforming our international financial institutions to make them better equipped to respond to modern risks will be a critically important piece of that endeavor. Another will be a greater capacity for industrial and emerging market economies to work together.

We welcome, in this context, the first meeting in Berlin this month of the G20, the new permanent informal mechanism for dialogue on key economic and financial issues among industrial and emerging markets. Brazil's participation in that grouping will be important. For, if what is different about these crises is the degree to which they trace back to the capital account and the sudden outflow of foreign capital, then recent experience in Brazil has pointed up a number of ways for countries to help stop these dynamics taking hold.

Notably:

- By building a stronger national balance sheet. Countries need to be working to build debt structures that help to cushion unexpected shocks, not worsen a crisis of confidence. That means investing in an adequate level of reserves; paying more for the protection afforded by longer term debt; and paying more to avoid the currency risk implicit in foreign currency borrowing.

- And by adopting more sustainable exchange rate regimes. Coming out of these crises, it should become increasingly the norm that countries involved with the world capital market avoid the risky "middle ground" of pegged exchange rates with discretionary monetary policies. In this region especially, an increasing number of countries are in fact moving toward "corner" regimes: be they firmly institutionalized fixed rate regimes or a pure float.

2. Managing Global Integration

At the same time, we have been reminded in recent days that globalization is and must be much more than a narrow economic challenge. As President Clinton has emphasized, global economic integration simply will not work if it means local disintegration - and if our people do not believe that integration works for them.

That is why, as we look to promote global trade and all the opportunities that it affords, we need to recognize globally - as we did within our own economy when inter-state commerce took off in the second half of the 19^{th} century - that in a world of deeper interconnections between economies there will be a greater need to consider together the issues that we have in common.

In short, at a time when the world is coming together and man-made and natural barriers to trade are coming down - it becomes vital to prevent a race to bottom, a bottom in which governments cannot promote fair taxes, uphold fair labor standards, regulate product safety, protect the environment, or promote other key values.

The challenge is one of synthesis. We must not begin a new century by impeding the most benign economic trend of this century - the rise of economic integration. In this region and globally, we must work to ensure that trade liberalization proceeds. But nor can we afford to ignore these broader concerns if we are to build the kind of global economy that we all want to see. The two giants of this hemisphere have an enormous stake in working to ensure that this kind of synthesis is achieved. Thank you.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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TREASURY UNDER SECRETARY GARY GENSLER REMARKS TO THE CONFERENCE ON FISCAL POLICY IN AN ERA OF SURPLUSES AT THE FEDERAL RESERVE BANK OF NEW YORK

Good afternoon. I want to thank Peter Fischer for inviting me to speak here today. I am particularly pleased to talk about debt management in this new era of budget surpluses.

The fiscal year 1999 unified surplus was $123 billion, almost twice the size of the previous year's $69 billion. These surpluses capped seven consecutive years of improvements in the Federal budget since the deficit peaked at $290 billion in FY 1992. This represents the longest series of improvements in budget outcomes in the history of the United States.

This progress has had a significant effect on Treasury financing. In 1993, federal debt held by the public was projected to rise to $5.4 trillion by 1999. Fortunately, the stock of publicly held debt outstanding now stands at only $3.6 trillion, more than $1.7 trillion lower than it otherwise would have been.

As a result, Treasury debt is taking up an ever smaller share of the economy and the capital markets. Treasury debt held by the public has fallen from 50 percent of GDP in 1994 to less than 40 percent today. This string of six consecutive years of declining debt as a share of GDP is the longest since the period ending in 1967 – more than 30 years ago. The decline in outstanding debt is expected to continue, dropping to 26 percent of GDP within 5 years.

The change is even more marked in relation to the capital markets. Treasury's share of gross new issuance in the market has dropped from 38 percent in 1995 to 16 percent through the third quarter of 1999. Since the start of the Clinton Administration, Treasury's share of outstanding debt in U.S. markets has fallen from more than 33 percent six years ago to less than 25 percent today.

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Reducing Treasury debt held by the public greatly benefits the economy and all Americans. It also brings with it new challenges for Treasury debt managers in achieving our three main goals: (1) to ensure that adequate cash balances are available at all times; (2) to achieve the lowest cost financing for taxpayers; and (3) to promote efficient capital markets. In pursuing these goals, we have sought to promote market liquidity and finance across the yield curve.

Debt Management Responses to Declining Debt

To date, Treasury has managed the declining debt by refunding our regularly maturing debt with smaller amounts of new debt. To accomplish this, we have used the financing tools of modifying issue sizes, offering schedules, and the types of securities offered.

First, while maintaining the frequency of Treasury bill auctions, we reduced their average size. In 1996, the average size of our weekly bill auctions was close to $20 billion. By 1998, the average size of weekly bill offerings had dropped 28 percent to just over $14 billion. This year the size has increased modestly to an average of just over $15 billion.

Next, we reduced the number of regular coupon issuances by one-third, from 39 to 26 a year. We accomplished this by discontinuing the 3 year, moving the 5 year to quarterly offerings, and discontinuing the November 30 year bond offering. This has allowed us to continue to issue large, liquid benchmark securities. While average auction size has declined modestly, by 6 percent since 1996, we have been able to maintain it at just under $14 billion for 1999.

We continue to consider whether further revisions to our auction schedule would be appropriate. Particularly, we continue to consider the frequency of issuance of 1-year bills and 2-year notes. Reducing the frequency of these auctions would give us some additional leeway in maintaining the size of our benchmark issues.

Debt Management Challenges

While we have been able to meet our debt management goals through these adjustments, we face additional challenges going forward.

First, debt held by the public is forecasted to shrink further, by $720 billion over the next five years and by over $2 trillion in ten years.

Second, the effect of seven years of fiscal discipline is already showing up in our maturing debt. There will be a great deal less maturing debt to be redeemed in the very near future. This fiscal year, $476 billion of coupon debt will mature, down from a peak of $510 billion in 1998. Over the next 18 months, the last of the old 7 year and 3 year notes will mature. Thus, by 2002, debt maturing will decline significantly. Depending upon the decisions we make this fiscal year about issuance of 2 year notes, debt maturing in 2002 is likely to be less than $400 billion.

Third, we face the challenge of how to continue to issue sufficient longer-term debt without an unacceptable lengthening of our maturity structure. For instance, if we maintain the current level of long term financing (10 year and 30 year debt), the average maturity is forecasted to lengthen from about 5 3/4 years currently to 8 years by the end of 2004. Over the long term, this would impose additional cost on the taxpayers to finance our debt.

To meet these challenges, new tools will be needed. By the end of the year, we will have in place two new debt management tools. This will provide us with important new means of managing the government's debt and responding to our improved fiscal condition.

First, we have issued a rule that will make it much easier for Treasury to reopen its benchmark securities. The new rule allows Treasury to reopen its benchmark securities within one year of issuance without creating concerns under the original issue discount (OID) rules. Under the previous rules, Treasury generally could reopen an issue only if the price of the issue had not fallen by more than a de minimus amount. This significantly constrained our ability to reopen benchmark securities. The new rules will enable us to reopen issues more easily. This important new debt management tool will improve our ability to maintain the size and liquidity of our benchmark securities.

Second, we are putting in place a new rule that will permit us to conduct debt buy-backs. This new rule will permit us to buy-back Treasury debt in advance of its maturity date. Buying back outstanding debt in advance of maturity will enable us to maintain larger, more liquid, auction sizes for our benchmark securities. Debt buy-backs also will give us the ability to manage the maturity structure of our debt by selectively targeting the maturities to be repurchased. This will provide us with additional flexibility to continue issuing our long-end maturities without unduly lengthening the maturity structure of our debt. Finally, debt buy-backs could be used as a cash management tool, absorbing excess cash in periods such as late April when tax revenues greatly exceed immediate spending needs.

Looking Ahead

Treasury securities currently play an important role in the global capital markets. They are actively used for hedging purposes. They provide a risk-free pricing benchmark across the yield curve. The Federal Reserve uses transactions in Treasury securities to affect the supply of reserves in the banking system.

As the Treasury market declines in size, other markets are likely to take on these roles. We believe that the financial markets should be able to make a smooth adjustment to these changes. Investors and hedgers will switch to trading other securities and derivatives.

This transition is already taking place. Market participants today use Eurodollar futures more actively than Treasury bills to hedge in the short end of the market. In addition, the role of Treasury securities as a pricing benchmark in the investment grade bond market is changing. While high grade corporates are still priced relative to Treasuries, growing weight is being given to the value of other high grade corporates. We are already seeing underwriters pricing new issues relative to the value of similar recently issued securities in addition to Treasury yields.

Most importantly, the benefits of reducing our nation's debt far surpass the issues that arise for the capital markets from this reduction. As less savings flow into government bonds, more will flow into investment in businesses and housing. There will be less pressure on interest rates, reducing the borrowing costs for businesses and families alike. While debt reductions present challenges to the financial markets and to Treasury's ability to manage the remaining debt, I think we can all agree the enormous benefits for our economy make these challenges worth meeting.

Thank you. I will be happy to take your questions.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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"Argentina and the United States Greet a New Century"
Remarks by Lawrence H. Summers
Secretary of the Treasury
American Chamber of Commerce
Buenos Aires, Argentina
December 2, 1999

Thank you. I am pleased to be able to meet with members of the Buenos Aires business community here today, and to share some of my impressions of my visit to Argentina.

I met yesterday with President Menem, Vice-Minister Guidotti and Central Bank Governor Pou; and with President-elect De La Rua, Finance Minister-designate Machinea, Foreign Minister-designate Rodriguez and other key officials. At these meetings we touched on four main topics:

- The remarkable accomplishments of the past decade of reforms in Argentina.
- How close the United States and Argentina have become during this period.
- The challenges that Argentina faces going forward.
- Our shared interest in a strong and more open global economy in the years to come.

Let me say a few words on each of these before opening it up for your questions.

I. A Remarkable Record

Particularly in my conversations with President Menem and his team, I reflected on the remarkable turnaround that has been achieved in the past ten years in Argentina:

- The economy has put four decades of slow growth and stagnation behind it, with average growth of 6 percent or more in the 1990s and a near doubling of per capita GDP.
- For the first time in living memory, the people of Argentina have been able to rely on stable prices and, behind them, a stable exchange rate. Inflation was 2,300 percent in 1990. Today it is below zero.
- And democracy – still perceived to be fragile in many quarters when the decade began – is now so strong and well-grounded here in Argentina that it has become a commonplace.

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We see the fruit of these achievements in the growth in the private business sector through the decade, and no less in Argentina's capacity to withstand enormously challenging times in regional and global financial markets: first, in the Tequila Shock of 1994-5, and most recently in the emerging market financial crises of the past two and a half years.

II. A Special Relationship

This visit was equally an opportunity to underscore how close the United States and Argentina have become during this period. Our bilateral relationship dates back to before there was even a country called Argentina – when the United States sent its first envoy to Buenos Aires in the first decade of the 19th century. But it is fair to say that a decade of change in Argentina has also greatly strengthened the ties that bind our two nations together.

- The United States' trade with many countries has grown in the past decade, but with few has it grown perhaps eight-fold, as it has with Argentina.

- American companies' foreign direct investment in Argentina has also increased substantially, reflecting the new opportunities created by macro-economic and structural reforms.

- And our security relationship has grown ever closer. Argentina is one of very few non-NATO countries that the United States formally claims as an ally, with whom we have worked together in recent years on key global challenges such as peacekeeping and addressing global warming.

III. Challenges Ahead

Times of transition, in a democracy, are always special times. I remember well the excitement surrounding President Clinton's election in November 1992. In democracies that are working well, as the United States' does and Argentina's does, they are both times for the reaffirmation of enduring principles and times offering windows of opportunity to achieve important things.

That is certainly true in Argentina right now. Realizing the opportunities that this special moment affords is the challenge that the newly elected leadership will face in the decisions and judgments that it will make in the weeks ahead. But it is also the challenge facing those who will need to work with them to make change happen.

In discussing with President-elect De La Rua and his team the Argentine recession and the problems that accompany it I was certainly reminded of the challenges that President Clinton faced as an incoming Administration in 1992. Notably: the need to confront fiscal problems; the high level of real interest rates; and the environment of economic slowdown.

The President's strategy in 1992 was to be rapid, decisive and strong in confronting these problems and to take a vicious cycle of high public borrowing, leading to high real interest rates, to slow growth and yet higher public borrowing – and turn it into a virtuous circle from lower borrowing to lower interest rates and faster growth.

That strategy played a key part in making the United States economic performance in the 1990s as good as it has been. I was encouraged by the sense of commitment on the part of President-elect De La Rua and his economic team to taking the same kind of decisive fiscal action to get the economy moving again here in Argentina.

We also had an opportunity to discuss the critical structural challenges facing Argentina – particularly at a time of close to 15 percent unemployment. And here, too, I was impressed by their commitment to reforms to help markets to operate and to produce more and better jobs. And I welcomed their emphasis on deregulation and reducing disincentives to hire workers as key means to that end.

If there is one lesson from global financial history it is that countries shape their own destinies. The choices that governments make, the speed with which they make them, and the clarity with which they execute them tend to be the single most important factors determining national success in a global economy.

The international investor community, as well as businesses here in Argentina like you, will be watching Argentina closely in the coming weeks and months – especially closely for signs of a reversal in the momentum of reforms. This heightened focus is certainly a constraint. But it also provides a rare chance to profit from exceeding expectations. Time and again, in recent years, we have seen the very different outcome that awaits the government that steps out, ahead of the market – relative to the one that lags behind.

IV. Common Interests

Finally, we reflected upon our shared interest in strong global growth in the coming few years – and the role that increased regional and global trade liberalization could play in bringing about that kind of strength. We noted in particular, in this context, the importance to both of our countries of reducing existing barriers to agricultural products in the next global trade round.

I am sorry not to be staying longer. But I am glad to have had the opportunity to come here for what was a very satisfying set of meetings – providing as they did a welcome opportunity both to reaffirm old ties and to forge new ones, with an Administration that is taking office at a critical time.

To be sure, the world is still a dangerous place. But Argentina has in its favor the improving atmosphere in world capital markets, rising commodity prices and the appearance of recovery in most other countries in Latin America. What matters now is that the Argentina government and people now seize the opportunity for this country's reforms to come of age. Thank you.

DEPARTMENT OF THE TREASURY

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"THE IDB AT THE DAWN OF A NEW CENTURY"
TREASURY SECRRETARY LAWRENCE H. SUMMERS
REMARKS AT THE INTER-AMERICAN DEVEOLOPMENT BANK
40th ANNIVERSARY CONFERENCE
PETROPOLIS, BRAZIL

Let me express the warm congratulations of the United States as you celebrate forty years promoting social and economic development in our hemisphere.

When Brazilian President Juscelino Kubitschek helped to found this institution in 1959 we knew that a central role of the world's first regional development bank would be helping countries and regions to build the capital they needed for development and growth. That remains true today, only now we know that there are at least three kinds of capital that are vital for lasting and inclusive growth.

First, countries need basic financial capital and a stable financial system through which to allocate that capital. When financial stability is in question – as it has been in many countries in the region at various times in recent years – the IDB has played a key role in helping countries respond to these financial emergencies and in this it has served the region well.

With the storm clouds now more distant and confidence returning, all of us need to remember the importance of building a stronger and more stable global and regional financial infrastructure for the future. As it matures and, more importantly, as the private capital market for emerging markets matures – especially, perhaps, in Latin America – the IDB will need to continue to think about its distinctive role in these efforts. It needs to consider carefully how it can best help countries prevent and respond to crises going forward, and how its comparative advantage will be exploited to maximum effect.

Second, we have learned and re-learned the importance of human capital for development, which surely is accentuated as regional and global economic integration proceeds. In a world where capital, businesses, information and ideas are more and more
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free to move, a country's most distinctive resource will be its people. And the quality of the investments that it makes in its people will be an increasingly important determinant of a nation's long term economic success.

The IDB for some time has been increasing its focus on human development and poverty reduction. But we can none of us have the kind of hopes we would like to have for this Continent in the early decades of a new century as long as roughly one-third of Latin America's people live in poverty, one-quarter do not have access to safe water, and one-fifth do not have access to sanitation. I am glad to note that the historic agreement to make available sufficient resources for the Fund for Special Operations is a mark of all of our commitment to continuing to strengthen the IDB's capacity to help the countries of this region reduce poverty and broaden economic opportunities in the years to come.

Third, we have come to realize the importance of what has come to be called social capital: the institutions, networks and understandings that go to make the kind of healthy civil society that is crucial for growth. In many ways it means, not just government by the people but government for the people.

That kind of social capital is hard to define precisely and even harder to create. But here at the IDB, we are learning some of the best places to start developing this kind of capital – such as increased transparency, more determined efforts to combat corruption and new mechanisms to devolve power and pave the way for deeper popular participation. To be sure, a very important part of this agenda will equally be increasing the transparency and accountability of the IDB itself, along with other international financial institutions.

I have just visited Bolivia, where the IDB and others are joining together within the framework of the Highly Indebted Poor Countries initiative, which the membership of the IDB recently endorsed to respond to all three problems.

- This initiative reflects the financial imperative that debts that will never be repaid should be relieved.

- It reflects the human imperative that the highest return use for the benefits of debt relief will be investing in human capital – in measurable improvements in key social indicators such as infant mortality, primary enrollments and rates of immunization.

- And finally, it reflects the social imperative that if those investments in people are to work as effectively as possible, they must also provide for greater participation by the people who will be most affected.

For all these reasons, the United States is doing and will continue to do its part to support the HIPC initiative. And have no doubt that we will continue to work with our Congress and the donor community to ensure that the initiative is fully funded.

In these ways and many more, the IDB has made a great contribution to the Americas in its forty years. But as impressive as its accomplishments have been, I know that President Iglesias would agree with me that its best days lie in the future. I look forward to good economic news for the region and new accomplishments for the region when we meet again for the IDB's 41st Annual Meeting, to be held in New Orleans. Thank you.

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"THE EVOLUTION OF THE INTERNATIONAL FINANCIAL SYSTEM"
TREASURY ASSISTANT SECRETARY FOR INTERNATIONAL AFFAIRS
EDWIN M. TRUMAN
REMARKS AT THE INSTITUTE FOR INTERNATIONAL MONETARY AFFAIRS
EIGHTH SYMPOSIUM
TOKYO, JAPAN

My remarks are organized in two parts. First, I offer some general comments on several aspects of currency arrangements. I follow with some observations on three features of the international financial system in the 21st century: the currency system, capital flows, and responsibilities of authorities in the major economies.

Currency Arrangements

A. A Common Global Currency

Many believe that a common global currency is the most attractive monetary arrangement from a global perspective; some wistfully identify such a regime with the 19th century gold standard. Under such a regime, foreign-currency transaction costs would be eliminated, foreign exchange crises would be a thing of the past, and a single money and capital market would allocate efficiently a global pool of savings to achieve maximum expected returns. To obtain the full promised potential from such a regime, wages and prices would have to be flexible, labor and capital would have to be mobile, and the scope for governmental intervention in the economy would have to be extensively circumscribed so that automatic mechanisms could be unleashed to adjust to changes in national economic and financial circumstances, for example, wages and prices (and, thus, real wages and relative prices) potentially would need to be free to decline and rise.

In the absence of those conditions, changes in global economic and financial circumstances – in particular, shocks with differential impacts on national economies – would be likely to lead to

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governmental intervention, at a minimum, to short-circuit the global system's automatic-Adjustment mechanisms. For example, governments would be tempted either to cushion the downward adjustment of wages and prices or to cushion the impact on employment and output of insufficient flexibility in wages and prices. Moreover, if the common currency were to be issued by a global monetary authority, it would be necessary to reach agreement on the objectives and political accountability of that authority. Finally, unless the monetary regime were accompanied by an approach to the global financial system with no public safety net, multi-national agreement would also be required on the supervision and regulation of that system. At the national level, the scope to provide lender-of-last-resort support to the financial sector would be very limited. Although I can imagine convergence toward such a monetary regime at some point in the 21st century, I doubt it is a realistic possibility in the next few decades.

B. International Currencies?

For most of the 20th century, at least one national currency has played a role in the international financial system as a major international currency, first sterling and more recently the dollar. I define an "international currency" as one that serves as an international unit of account, means of payment, and store of value for both the private and the public sectors. Moreover, a national currency that is used in international transactions or investment activities involving economic agents in two countries when the currency involved is issued by one of the countries has a very different role compared with a national currency that is used in international transactions and investment activities among agents in two countries when the currency involved is issued by neither of the countries. By the first test, there are many international currencies today, particularly in the financial area where non-residents borrow in and, to an even greater extent, invest in assets denominated in local currencies. By the second test, there is only a handful of international currencies, actual and potential. In today's world, the choice of an international currency in the broadest sense is one made by the market and not via governmental edict, and an international currency's role as a store of value for the public sectors (its reserve role) is of limited importance.[1]

The benefits to today's global financial system of the availability of an international currency are similar to those associated with a regime with a single global currency; they derive from reduced costs, increased efficiency, and enhanced liquidity in international transactions.[2]

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[1] For example, today less than 20 percent of foreign portfolio claims on the United States take the form of claims by official institutions.

[2] The distinction between a regime with common global currency and a regime with single international currency is analogous to the distinction between a world with a common language used by everyone in all communications and a world with many languages but only one language that is used in all "international" communications. In the absence of an "international" language, communication suffers because one or both parties would have to learn multiple foreign languages in order to communicate, and accurate communication suffers as a result. Multilingual communication, involving more than two languages, is even more handicapped.

These benefits accrue primarily to the system as a whole as long as economic agents are free to use, or not to use, the international currency in their transactions. The costs to the system are minimal because national monetary authorities are not constrained by the monetary policy decisions of the country issuing the currency, are free to use their own policies to adjust to changing economic and financial circumstances, and are not required to hold their foreign exchange reserves in any one international currency. Financial institutions chartered in the country issuing the international currency may over time derive some benefit from their access to a lender of last resort that is perceived to have the ability to influence the creation of international credit, but this is hardly a benefit that can be recorded in a country's national income and product accounts. At the same time, the national monetary authorities in the issuing country may feel constrained in their decisions because of their reduced capacity to monitor and control the growth of credit denominated in their currency.[3]

It is fashionable to observe that the international financial system is headed toward a tri-polar world with three international currencies playing roughly equal roles. This may well be the case, but I would argue that there is no added efficiency for the system as a whole from multiple international currencies. Moreover, although some argue that more than one major international currency would provide a healthy element of competition, others argue that potential volatility would increase.

C. The Future of National Currencies?

For a country whose currency is not an international currency, the question is whether there is a net benefit to its independent status. The potential benefit derives from two features of the regime: the use of exchange rate adjustments to alter relative prices, and the scope for independent macroeconomic policy – primarily, but not exclusively, monetary policy. A country may choose to preserve its policy options by adopting a regime with some form of adjustable peg, but it cannot expect on a continuing basis to be able to exercise much independence in its monetary policy. If a country is to exercise significant independence in monetary or other macroeconomic policies on a continuing basis, it must have a substantial degree of exchange rate flexibility. However, even under floating exchange rates, the exercise of that independence is constrained by global economic and financial conditions, as the authorities of a number of major countries learned during the 1970s.

A relevant question is whether during the 25 years of floating exchange rates among the major currencies, and the growing integration of international money and capital markets over the period, the scope to exercise independent monetary policies has declined. Abstracting from changes in domestic and international economic and financial environment, i.e., from business

[3] I do not include seigniorage on the use of paper currency as a benefit deriving from a currency's international role because in today's world, and as a rather recent development, such international seigniorage primarily derives not from the use of another country's currency in international (transnational) transactions but principally from its use in its domestic (internal) transactions.

cycles and the volatility of inflation, differentials among short-term real interest rates are a crude proxy for the de facto scope for independent monetary policies. This thought led me to look at some evidence.[4] What I found was that under fixed exchange rates in the 1960s, differentials in real short-term interest rates between Germany and the United Kingdom and the United States were 100-200 basis points.[5] In the 1970s, differentials (including for Japan) often exceeded 300 basis points and, and at times exceeded 450 basis points. In the 1980s, observed differentials declined somewhat, but they increased again in the 1990s, at times exceeding 300 basis points. The evidence from these crude proxies suggests that, with floating exchange rates, the scope to exercise an independent monetary policy is larger than under fixed rates and remains substantial, at least for countries whose macroeconomic policies are fundamentally credible, including not only the G3 economies - Japan, Euroland, and the United States - but also, based on the U.K. evidence that was assembled, for countries such as Canada and Switzerland.

What about other countries and their currencies? We appear to be witnessing a trend away from the "middle ground" of pegged exchange rate regimes combined with discretionary monetary policies.[6] This is an appropriate and pragmatic trend, and the international financial community, in our view, should be reluctant to provide extraordinary financing to support middle-ground regimes when they are not supported by strong institutional arrangements and are potentially vulnerable. At the same time, adoption of a floating exchange rate regime does not automatically bestow on a country meaningful policy independence; that requires the establishment of a sustained record of policy and performance.

At the other extreme, a country may abandon its currency and adopt another country's currency as its own, for example, via dollarization. A country may choose to take such a step, having rejected the middle ground of an exchange rate peg, because its macroeconomic policies are insufficiently credible to take advantage of the scope for discretionary policy offered by floating. However, unlike the choice of monetary union, which involves sovereign decisions by all the parties, the choice of dollarization, or the equivalent adoption of another country's currency, fundamentally should be for the authorities of the dollarizing country to make because the decision has large potential economic, financial and political consequences.

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[4] Proxies were constructed using nominal short-term (generally three-month) interest rates for Japan, Germany, the United Kingdom, and the United States deflated by the 12-month lagging CPI inflation rate. The absolute values of differentials with the U.S. short-term real interest rate were smoothed over rolling five-year periods. My former colleagues in the Division of International Finance at the Board of Governors of the Federal Reserve System generously constructed the proxies.

[5] Comparable interest-rate data were not readily available for Japan during this period.

[6] We have seen a trend toward floating exchange rate regimes, first in Asia in 1997 and this year in Latin America, where four countries have followed Mexico's 1995 example and abandoned regimes involving various types of exchange rate pegs - Brazil, Chile, Colombia and Ecuador. Malaysia is a counter example, having adopted a peg in September 1998.

The United States, in principle, is open to a choice by another country to dollarize. However, we have said that it would be inappropriate to adjust the procedures and orientation of U.S. monetary policy in light of a country's choice to adopt the dollar, to increase the responsibilities of our bank supervisors to cover institutions in that country, or to provide expanded access to the Federal Reserve's discount window to its financial institutions. We have also indicated our interest in discussing such a choice with the authorities because, depending on the economic size of the country, its decision and the quality of its advance preparations potentially could impact adversely the United States as well as the global financial system.

Three Observations about the International Financial System in the 21st Century

I conclude with some observations on three features of the international financial system in the 21st century: the currency system, capital flows, and the responsibilities of authorities in the major economies.

A. The Currency System

Given the diverse development of exchange rate regimes over the past thirty years, I am reluctant to forecast the shape of the global currency system five, ten, twenty or fifty years from now. The safest judgment is that the currency system will continue to evolve along with the evolution of the international financial system. It is no accident, and in my view remains wise, that Article IV of the IMF Articles of Agreement calls upon "members to assure orderly exchange rate arrangements and to promote a stable system of exchange rates" not a stable exchange rate system. In a rapidly changing international financial system, the search for comprehensive approaches to global exchange rate systems is likely to be unrewarding.

When it comes to exchange rate regimes, there are no panaceas. It is easy to demonstrate that there is no single regime that is best for any national economy under all economic and financial circumstances; the disturbances with which regimes must cope change over time. National authorities have to make choices about which regime on balance will best serve their economies; because changes in regimes are not costless. Eclecticism also is not a realistic option. Similarly no global currency system promises to serve best the interests of the global financial system under all conditions. Hence, the ongoing debate about currency regimes.

In my view, it would be undesirable if the global financial system were to evolve in the direction of large currency blocs. In the jargon of the economists, there are today few natural optimal currency areas aside from cases where their economic integration is an overarching objective, such as Euroland. Viable currency blocs are likely to leave out a large number of economies participating in the global economy. Moreover, the analogy to trade blocs is weak. The economic case for a trade bloc rests on the observation that ex ante trade barriers are high; the establishment of the trade bloc serves on balance to reduce trade distortions, creating more trade than is diverted. Currency blocs, on the other hand, run the risk of increasing distortions through the erection of barriers to the free flows of finance where few exist today, at least among the major currencies and financial markets.

B. Capital Flows

When it comes to global capital flows, I do not believe that the global currency system is the major source of potential crises. Consider a regime with a common global currency. Under such a regime, as with national monetary systems, capital flows would not be immune from irrational exuberance or despondence, and crises would continue to be possible.

Whatever one's philosophy, at a pragmatic level, responding to potential problems associated with international capital flows by the imposition of controls on those flows is likely over time to prove to be inefficient (and, therefore, costly), ineffective, or both, unless the national financial market itself is tightly controlled or highly underdeveloped. Moreover, experience has shown that as countries develop and grow, controls are relaxed and financial systems are opened up. Thus, a better response to the potential problems associated with international capital flows lies in the promotion of sound macroeconomic policies, flexible markets, robust financial systems supported by appropriate regulations and supervision, transparency about regimes and institutions, and adherence to agreed global standards.

C. Responsibilities of Authorities in the Major Economies

In order to provide support for the appropriate evolution of the international financial system in the 21st century, the authorities in the major economies should implement sound macroeconomic and structural policies, demonstrate their respect for market forces, and endeavor to follow a policy of inclusion when it comes to establishing the rules and principles that will guide and govern the financial system. All this may sound like very little, but it is remarkable how taxing it is to accomplish these tasks effectively and successfully.

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DEPUTY TREASURY SECRETARY STUART EIZENSTAT
REMARKS TO THE FOURTH FARM JOURNAL FORUM
WASHINGTON, D.C.

I am happy to be with you today. The Farm Journal is respected throughout the agricultural community, not only for its content, but for its sponsorship of meetings like this, where people with a critical interest in agriculture, from farmers to agricultural economists, have a chance to hear from one another. I look forward to hearing from some of you after my presentation.

I have had a long association with the agricultural community. Ag policy was part of my portfolio on the White House staff. Since the President of the United States was himself a farmer, I was not able to add any first hand experience, but I became expert in just about every aspect of farm policy. When I was in Brussels, I participated in the major efforts we made to open up the EU market to U.S. products, including some of the first GMO products like Ready Roundup Soybeans. I also saw the important role our Embassies abroad play, at the local level, to help with market opportunities. Later, at Commerce and the State Department, I had the opportunity to work with many of your industries and companies to foster this Administration's open market policies. I know that the Ag community has been the backbone of support for all our efforts to improve trade among nations. In connection with my topic for today, I particularly remember the strong support the agricultural community gave, at the time of the Asian financial crisis, to our successful effort to enlarge the U.S. contribution to the International Monetary Fund, so it could help restore some measure of financial stability; and also to our effort to increase export credit guarantees to Asian countries. This has begun to pay real dividends.

The food and fiber industries are key to our position in the global economy. They employ over 2 ½ million people. Since 1994, food exports have contributed over $300 billion to our balance of payments, on average, accounting for 6½% of our exports. It is extremely important, to us at Treasury and throughout the government, that you maintain and expand your markets overseas.

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It has been a rocky road for agriculture over the last three years. Overall commodity prices have declined by about 20% since 1997, and agricultural prices have declined further than that. In the past several months, prices appear to have hit bottom and started to recover, with livestock prices leading the way. Nevertheless, they are still at depressed levels, and it will take resumption of growth in both Asia and Latin America for prices and exports to recover fully. The Administration has tried to help with direct assistance. In 1998, we provided $16 billion and this year it has been $22.5 billion, the highest yearly figure in history. The Freedom to Farm bill cut a hole in the safety net, giving insufficient cushion for farmers in years when the ag economy goes south. We need a well thought out, well balanced farm bill and we in the Administration will work hard with the Congress to get it.

And this year it used to be that farmers were at the mercy of only four things: the weather, the insects, the railroads and the banks. That was hard enough. Now they have to worry about financial crises half way around the world: how it will affect their markets, how it will affect their prices, what can be done to bring them under control.

The world economy was severely impacted by the crisis that began in Asia two years ago. That in turn severely affected your exports. In the five countries that bore the brunt of the crisis—Thailand, Indonesia, Korea, Malaysia and the Philippines, GDP plummeted from an average of 4.5% positive growth in 1997 to an average of 7.7% negative in 1998. In Indonesia the turnaround was even worse: from 4.6% growth to 13.2% shrinkage, with dire human and political consequences which have still not played out. Net flows of private capital—which help finance those countries' imports and therefore sustain the agricultural economy—were even more dramatic. In 1997, investors poured over $62 billion into these countries. Last year, they took over $45 billion out. And all of this came at a time when Japan, the world's second largest market, was suffering from disinflation and weak demand itself.

While the U.S. economy overall has remained strong, the fallout from the financial crisis resulted in our overall export numbers being flat. The Ag sector, being particularly vulnerable, experienced a much larger fall. Overall commodity prices have declined by 20% since 1997 as a result of weak global demand, and agricultural prices have dropped further. Annual agricultural exports have declined by over $10 billion since their peak in 1996. Prices seem to be bottoming out this year; notably livestock prices, are showing improvement. As global demand picks up, we expect both shipments and prices for agricultural commodities to increase.

In the countries most strongly affected by the Asian crisis, the consensus forecast for GDP growth this year is 8.6% in Korea, between 2.9% and 4.5 % for Thailand, 0.1% for Malaysia, the Philippines, and Indonesia. The IMF forecast for the developing countries in Asia is a 5.4% increase. Last year Japan's economy contracted by 2.8%. There are some positive signs of growth in Japan but prospects for a sustained upturn remain somewhat uncertain. Third quarter figures show an annualized drop in GDP of 3.8%.

It has been a rocky road for agriculture over the last three years. Overall commodity prices have declined by about 20% since 1997, and agricultural prices have declined further than that. In the past several months, prices appear to have hit bottom and started to recover, with livestock prices leading the way. Nevertheless, they are still at depressed levels, and it will take resumption of growth in both Asia and Latin America for prices and exports to recover fully. The Administration has tried to help with direct assistance. In 1998, we provided $16 billion and this year it has been $22.5 billion, the highest yearly figure in history. The Freedom to Farm bill cut a hole in the safety net, giving insufficient cushion for farmers in years when the ag economy goes south. We need a well thought out, well balanced farm bill and we in the Administration will work hard with the Congress to get it.

And this year it used to be that farmers were at the mercy of only four things: the weather, the insects, the railroads and the banks. That was hard enough. Now they have to worry about financial crises half way around the world: how it will affect their markets, how it will affect their prices, what can be done to bring them under control.

The world economy was severely impacted by the crisis that began in Asia two years ago. That in turn severely affected your exports. In the five countries that bore the brunt of the crisis—Thailand, Indonesia, Korea, Malaysia and the Philippines, GDP plummeted from an average of 4.5% positive growth in 1997 to an average of 7.7% negative in 1998. In Indonesia the turnaround was even worse: from 4.6% growth to 13.2% shrinkage, with dire human and political consequences which have still not played out. Net flows of private capital—which help finance those countries' imports and therefore sustain the agricultural economy—were even more dramatic. In 1997, investors poured over $62 billion into these countries. Last year, they took over $45 billion out. And all of this came at a time when Japan, the world's second largest market, was suffering from disinflation and weak demand itself.

While the U.S. economy overall has remained strong, the fallout from the financial crisis resulted in our overall export numbers being flat. The Ag sector, being particularly vulnerable, experienced a much larger fall. Overall commodity prices have declined by 20% since 1997 as a result of weak global demand, and agricultural prices have dropped further. Annual agricultural exports have declined by over $10 billion since their peak in 1996. Prices seem to be bottoming out this year; notably livestock prices, are showing improvement. As global demand picks up, we expect both shipments and prices for agricultural commodities to increase.

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Hopes for recovery are also reflected in rising intra-Asian trade. Exports from the other Asian nations to the crisis countries were up 5% in the first quarter of this year compared to a 20% decline in 1998. Stocks have rebounded strongly in these nations, and currencies have also strengthened in many cases. However, the recoveries are not yet broad based, due to weak domestic consumption and investment, and the risk the economies may backslide remains.

I know you are also interested in the outlook in Latin America. The fallout from the Asian financial turmoil, combined with weak commodity prices and extremely bad weather, has made things difficult for Latin countries. Economists expect the economy of the region as a whole to contract slightly this year. Real GDP in six of the countries—Argentina, Brazil, Chile, Columbia, Ecuador and Venezuela--will likely be flat or decline this year. Agricultural commodity prices fell 12% this year after a 20% decline last year. However, the Latin governments generally have responded to external economic and financial pressures with renewed commitment to prudent fiscal and monetary policies and deeper financial sector reforms, and they have not retreated into protectionism. As a result inflation has remained low in most countries and short term interest rates are typically well below their level a year ago. Thus, next year looks more promising for economic growth in Latin America as a whole. The consensus forecast is for a healthy 3.2 % growth and the IMF forecast is 3.9 %. This means there should be a rebound in agriculture prices, along with those of other commodities.

As we deal with the consequences of the events of the past, we should consider what can be done to prevent financial crises in the future. I think the experience of the past two years provides important guidelines as to how best to do this.

At the heart of all the recent crises were exchange rate regimes that ultimately proved unsustainable and inconsistent with the macroeconomic policies the countries were following. Fixed exchange rates also led to the additional danger that firms and financial institutions would underestimate the risks associated with short-term borrowing of foreign currencies, thus contributing to the excessive accumulation of unhedged short-term debt.

The countries most vulnerable were those that lacked the intangible infrastructure of modern financial systems. To a significant degree, bank lending was based upon closed company to company relationships instead of market analysis. In Korea, Indonesia, Thailand and even Japan, there was over-lending and over-investment in real estate and other sectors, which were risky and proved ultimately to be unsustainable. These activities were financed for too long by investors and creditors from industrial countries who, while reaching for greater yield, failed to pay sufficient attention to risk.

Once things started to go sour, once confidence was lost, investors who had previously extended credit to developing countries over-reacted in the opposite direction, and began to pull out of developing countries indiscriminately. This is why, in our judgment, it was critical in several cases for the international community to step in and provide the financing needed to stem the tide and catalyze the restoration of confidence.

From August 1997 to December 1998 the international community committed $190 billion to Thailand, Korea, Indonesia and Brazil, of which $63 billion was disbursed. The recipient countries agreed to important conditions concerning trade liberalization. Pursuant to its loan program with the IMF, Indonesia has abolished import monopolies for soybeans and wheat, agreed to phase out all quantitative import restrictions and other non-tariff barriers. South Korea has reduced the number of items subject to adjustment tariffs and eliminated trade-related subsidies. Brazil made a commitment, in the context of its IMF program, not to impose trade restrictions for balance of payments reasons, or any other restrictions that would be inconsistent with its WTO obligations. And Argentina has undertaken to end the surcharge to its Mercosur external tariff by the end of this year. In these ways, the international financial organizations are working with us to break down trade barriers.

The Asian crisis and its aftermath resulted in a broad, soul-searching effort to strengthen the international financial architecture. The purpose is to prevent as much as possible a repetition of events which did such damage to your industry and to others around the world.

On exchange rates, the International Monetary Fund, to which nations look for assistance when their policies cause problems, will be watching much more closely, and clearly indicating to governments when their domestic policies are inconsistent with their chosen exchange rate regime. We are encouraging the IMF also to provide stronger guidance to nations on how to exit from exchange rate anchors put into place in response to the hyper-inflation that had afflicted some developing markets. The major shareholders of the IMF have made clear their view that the international community should not provide significant official financing for a country intervening heavily to support a particular exchange rate level, except where that level is judged sustainable and certain conditions have been met, such as where the exchange rate policy is backed by a strong and credible commitment with supporting arrangements, and by consistent domestic policies

To help prevent capital account crises, governments need to think long and hard about the strength of their own balance sheets. A number of international groups have looked at guidelines for improved risk management at a national level and some simple balance sheet rules for countries. Examples include rules of thumb for minimum levels of foreign reserves and a suggested three-year minimum average maturity of public debt. Sound debt management is one of the criteria the IMF will use in determining eligibility for its new Contingent Credit Line, the IMF's first line of defense against financial contagion.

Once the immediate crises have passed, emerging market nations will still have to make deep-seated structural reforms to lay the basis for long-term, sustainable growth. For the people of these nations to make the sacrifices such reforms often involve, they must have some confidence that a social safety net exists to help them weather the transition. Social programs should be aimed at helping people acquire the skills to change occupations and make other adjustments. They should include basic education and health care, access to credit for small and medium sized enterprise and retirement systems to encourage productivity and labor mobility. These investments should be maintained, or at least not disproportionately reduced, during economic downturns. That is why the U.S. pressed, in the fall of 1998, for the World Bank to triple its social program lending to crisis economies, and why we have supported major efforts by all international financial institutions for these purposes.

There will be no single, dramatic moment of reform. But over time, the steps we have already taken and those we are now implementing constitute a very powerful program of reform—one that will have an increasing effect on the way the global financial system functions. This will redound to the advantage of our farm community as Asia and Latin America recover from their financial crises.

It used to be a long way from the boardrooms of international finance to the farmland of America, but it is no longer. They are connected today in many ways. Both are part of the global economy. Both need each other to accomplish their goals. Both can be damaged by problems in distant lands. Our job in government is to help create conditions that will operate for the safety and the benefit of both. It has been our privilege to work with many of you in the past, and I hope that relationship will continue into the future.

Thank you.

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PUBLIC DEBT NEWS

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

FOR RELEASE AT 3:00 PM
December 6, 1999

Contact: Peter Hollenbach
(202) 691-3502

PUBLIC DEBT ANNOUNCES ACTIVITY FOR SECURITIES IN THE STRIPS PROGRAM FOR NOVEMBER 1999

The Bureau of the Public Debt announced activity figures for the month of November 1999, of securities within the Separate Trading of Registered Interest and Principal of Securities program (STRIPS).

Dollar Amounts in Thousands

Principal Outstanding (Eligible Securities)	$1,887,595,439
Held in Unstripped Form	$1,676,776,486
Held in Stripped Form	$210,818,953
Reconstituted in November	$12,302,747

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 V of the Monthly Statement of the Public Debt, entitled "Holdings of Treasury Securities in Stripped Form."

The Strips Table 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 Public Debt and Treasury Securities is also available on the homepage.

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TABLE V - HOLDINGS OF TREASURY SECURITIES IN STRIPPED FORM, NOVEMBER 30, 1999

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	4,348,206	3,953,600	92,800
DQ8	12	AD5	05/15/05	4,260,758	1,854,208	2,406,550	45,200
DR6	10-3/4	AG8	08/15/05	9,269,713	5,694,513	3,575,200	110,400
DU9	9-3/8	AJ2	02/15/06	4,755,916	4,747,980	7,936	0
DN5	11-3/4	912800 AA7	11/15/14	6,005,584	2,455,984	3,549,600	107,200
DP0	11-1/4	912803 AA1	02/15/15	12,667,799	9,601,079	3,066,720	502,880
DS4	10-5/8	AC7	08/15/15	7,149,916	5,347,356	1,802,560	103,040
DT2	9-7/8	AE3	11/15/15	6,899,859	3,199,059	3,700,800	24,000
DV7	9-1/4	AF0	02/15/16	7,266,854	6,500,454	766,400	0
DW5	7-1/4	AH6	05/15/16	18,823,551	18,708,351	115,200	139,200
DX3	7-1/2	AK9	11/15/16	18,864,448	17,738,928	1,125,520	30,800
DY1	8-3/4	AL7	05/15/17	18,194,169	10,295,929	7,898,240	826,560
DZ8	8-7/8	AM5	08/15/17	14,016,858	10,226,458	3,790,400	398,400
EA2	9-1/8	AN3	05/15/18	8,708,639	3,023,839	5,684,800	182,400
EB0	9	AP8	11/15/18	9,032,870	2,598,470	6,434,400	387,000
EC8	8-7/8	AQ6	02/15/19	19,250,798	10,513,198	8,737,600	1,270,400
ED6	8-1/8	AR4	08/15/19	20,213,832	19,293,192	920,640	187,200
EE4	8-1/2	AS2	02/15/20	10,228,868	8,195,268	2,033,600	364,000
EF1	8-3/4	AT0	05/15/20	10,158,883	3,136,483	7,022,400	173,440
EG9	8-3/4	AU7	08/15/20	21,418,606	7,286,606	14,132,000	984,800
EH7	7-7/8	AV5	02/15/21	11,113,373	10,074,973	1,038,400	100,800
EJ3	8-1/8	AW3	05/15/21	11,958,888	6,820,008	5,138,880	171,840
EK0	8-1/8	AX1	08/15/21	12,163,482	8,943,642	3,219,840	618,240
EL8	8	AY9	11/15/21	32,798,394	15,136,044	17,662,350	2,081,075
EM6	7-1/4	AZ6	08/15/22	10,352,790	8,979,190	1,373,600	140,000
EN4	7-5/8	BA0	11/15/22	10,699,626	3,685,226	7,014,400	219,200
EP9	7-1/8	BB8	02/15/23	18,374,361	11,198,361	7,176,000	163,200
EQ7	6-1/4	BC6	08/15/23	22,909,044	18,471,380	4,437,664	170,016
ES3	7-1/2	BD4	11/15/24	11,469,662	3,554,302	7,915,360	67,680
ET1	7-5/8	BE2	02/15/25	11,725,170	2,761,970	8,963,200	315,200
EV6	6-7/8	BF9	08/15/25	12,602,007	7,751,447	4,850,560	279,040
EW4	6	BG7	02/15/26	12,904,916	11,877,516	1,027,400	136,500
EX2	6-3/4	BH5	08/15/26	10,893,818	7,336,218	3,557,600	165,600
EY0	6-1/2	BJ1	11/15/26	11,493,177	8,241,977	3,251,200	214,400
EZ7	6-5/8	BK8	02/15/27	10,456,071	5,864,071	4,592,000	232,000
FA1	6-3/8	BL6	08/15/27	10,735,756	9,863,756	872,000	48,000
FB9	6-1/8	BM4	11/15/27	22,518,539	18,166,539	4,352,000	60,800
FE3	5-1/2	BP7	08/15/28	11,776,201	11,675,001	101,200	0
FF0	5-1/4	BV4	11/15/28	10,947,052	10,706,252	240,800	0
FG8	5-1/4	BW2	02/15/29	11,350,341	11,350,341	0	0
FJ2	6-1/8	CG6	08/15/29	11,178,580	11,178,580	0	0
Total Treasury Bonds............................				525,910,975	358,402,355	167,508,620	11,113,311
Treasury Inflation-Indexed Notes:							
CUSIP:	Series: Interest Rate:						
912827 3A8	J 3-5/8	912820 BZ9	07/15/02	17,627,784	17,627,784	0	0
2M3	A 3-3/8	BV8	01/15/07	16,696,673	16,696,673	0	0
3T7	A 3-5/8	CL9	01/15/08	17,469,050	17,469,050	0	0
4Y5	A 3-7/8	DN4	01/15/09	16,278,012	16,278,012	0	0
Total Inflation-Indexed Notes.................				68,071,519	68,071,519	0	0
Treasury Inflation-Indexed Bonds:							
CUSIP:	Interest Rate:						
912810 FD5	3-5/8	912803 BN2	04/15/28	17,445,855	17,445,855	0	0
FH6	3-7/8	CF8	04/15/29	15,032,946	15,032,946	0	0
Total Inflation-Indexed Bonds................				32,478,801	32,478,801	0	0

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
December 6, 1999

JOINT STATEMENT BY THE DEPARTMENTS OF JUSTICE AND TREASURY

We have received the Special Master's report today and will respond to the Court as appropriate.

The Treasury and Justice Departments have cooperated fully with the Special Master in his inquiry, and will continue to cooperate with him and the Court. The Justice and Treasury Departments have devoted substantial new resources to handle this litigation, and the government will continue to move ahead to make improvements in the administration of monies held on behalf of individual Indians. The Treasury Department referred this matter to its Inspector General in June and looks forward to cooperating fully with his inquiry.

We are, of course, disappointed in certain of the Special Master's conclusions regarding the government's conduct. As the Court noted, the Report does not constitute a final determination, and the individuals mentioned in it and the government will have an opportunity to respond. We are committed to cooperating with the Court to resolve all issues fully and fairly. In fairness to all concerned, we caution against drawing conclusions prematurely.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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For Immediate Release
December 7, 1999

Prepared Remarks by Stuart Eizenstat
Excellence in Diplomacy Awards
American Academy of Diplomacy
Washington D.C.

I am most grateful to the Academy for this honor. I deeply regret not being able to accept it personally, but the death of a beloved member of my family and his funeral today in Atlanta makes it impossible. It is fitting that Tony Wayne will accept the award and read my remarks, because his inspiration and collaboration have been vital to me, both in Brussels and in Washington.

In my over thirty years in government, I have continually been impressed by the excellence of our diplomatic personnel, both at home and abroad. This Academy is devoted to maintaining this at a high level, as well as to advocating adequate support for our foreign policy institutions. You are very fortunate to have the leadership of Joe Sisco, whose career in diplomacy, especially in the Middle East, made him a model for so many people including myself; and of Bruce Laingen, who has combined remarkable ability with a very high degree of personal courage.

The last decades of the century that will shortly be passing have been marked by an expansion of the importance of diplomacy in the economic, trade and financial arenas. This is not to say there was no such activity before. The Marshall Plan, of which Secretary Acheson was a leading architect, was an economic program which required considerable diplomatic coordination to accomplish its historic purpose. And I well remember when Margaret Thacher came to Washington to plead with President Reagan to lower U.S. interest rates, which were draining investment funds out of Europe. But on the whole, economic matters have traditionally been the stepchild of diplomacy and of the State Department. Today, they have become central to statecraft.

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DEPARTMENT OF THE TREASURY

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As just a few illustrations, the successful integration of Russia and China into a rules-based political system depends heavily upon their economic success and openness. What the IMF does with Russia will be every bit as important to that country's future as the kind of arms control program it accepts. Chinese entry into the WTO will require enormous changes in the way that country works economically. The Middle East peace process will have difficulty succeeding unless it delivers economic benefits now, particularly to core constituencies in Jordan, the West Bank and Gaza. And peace in the Balkans will depend in large part upon the success of economic reconstruction as mapped by the Southeastern Europe Initiative.

My observations on diplomacy have been shaped, of course, by my own experience, which has concentrated in the economic area. In this Administration, I have been the chief or a principal negotiator for the following:

The New Transatlantic Agenda which set the framework for the economic and political relationship between the European Union and the U.S. and which developed a mechanism—the Senior Level Group—to help to resolve differences before they become crises and to make the semiannual EU-U.S. summits more substantive and meaningful.

The Japan Port Agreement, which avoided retaliatory shutdowns of transportation facilities here and in Japan.

The negotiations with the European Union and Russia over investments in Iran under the Iran-Libya Sanctions Act, in which we exercised project-by-project waiver authority to exempt petroleum companies from sanctions (which would have badly impaired diplomatic relations), and for the EU agreeing to strengthen export controls on hi-tech exports to Iran and aggressively fight terrorism. The Russians agreed to adopt, for the first time, a catchall export control system.

The Kyoto Global Warming Protocol to reduce the dangerous buildup of greenhouse gas emissions which threaten our global environment.

Two extended negotiations with the EU over Cuba sanctions. The first, in 1996, lead to the EU taking a Common Position on Cuba which tied closer relations to an improvement in human rights and democracy in that regime and clearing the way for a series of Presidential waivers of sanctions under Title III of the Helms-Burton Act. In the second, in 1998 the EU nations committed to restricting official government support for investments by companies in property that had been illegally confiscated by the Cuban government, and to refrain from giving export and investment subsidies to any of their companies which were investing in property that Cuba had illegally expropriated. This is contingent on our obtaining waiver authority from the Congress under Tital Four of Helms-Burton.

And, over the last two years, a series of negotiations on assets and claims relating to World War II and the Holocaust including funds in Swiss banks, Swiss gold, life insurance policies, restitution of stolen art, and compensation to survivors for forced and slave labor performed for German industry under the Nazi regime.

I have been peripherally involved in many other negotiations from the end game of the Uruguay trade round to the WTO meetings in Seattle to the MAI negotiations at the OECD.

My observation from these experiences is that the essential qualities that make a good negotiator do not differ between economic diplomacy and political diplomacy. Both require patience, persistence, creativity, a command of the facts, the ability to argue persuasively, to know when to speak and when to be silent, to respect the position of the other side and while understanding your own country's bottom line needs, to sense what they really need to stay at the table and enter the end game. At times it may be necessary to conjure up phrases which each side can interpret in its own way, although this is hardly desirable. In the end, both sides must be able to proclaim victory, and neither concedes defeat if negotiations are to succeed.

The chief differences between economic and political diplomacy, as I see them, are in the externals. Since the United States in modern times has never had designs on the territory of other nations, traditional diplomacy could have noble motives: keeping the peace, advancing human rights, improving the lot of poor nations. But in the economic sphere, we are competitive with other nations for contracts and markets. Thus economic diplomacy runs the risk of appearing to impose imposing American standards, culture, and ownership and comes under fire for that reason.

Economic diplomacy must also be more responsive to domestic interest groups, because it impacts their concerns and their constituencies in a more direct way. For this very reason, Congress tends to take a more direct, more proprietary interest in economic issues than they do in the more traditional issues of diplomacy, in which the President is generally allowed to take the lead under his Constitutional prerogative to conduct foreign relations unless,--as in Viet Nam in the sixties or Central America in the seventies, they go very badly. These factors complicate economic negotiations, and limit the leeway the Executive normally possesses in negotiations.

Economic diplomacy is going to become even more complicated over the next several decades, for several reasons. First, NGOs have become more visible, assertive and expert in what had previously been an often arcane and elite arena. Second, developing countries are no longer content to have the rules of the game dictated to them by a few large developed economies. The MAI negotiations in the OECD imploded because of INGO and LDC demands. The Ministerial in Seattle and the global warming talks in Kyoto were complicated by them. We have learned we cannot and should not negotiate around either group. We must listen to, respect and attempt to accommodate at least some of their legitimate concerns without compromising our own goals and interests. Allowing them in will help ensure the acceptability and sustainability of whatever agreements can be made.

Third, the economic sphere will see increasing multilateral negotiations rather than traditional bilateral agreements. A global economy requires global, multinational negotiations. However, the continued divisions between Northern and Southern hemispheres will make them excruciatingly difficult. I was struck, at both Kyoto and Seattle, by the ferocity of distrust not withstanding the fact that developing countries are almost universally desirous of foreign investment, and by the extent to which many of them are still deeply suspicious of developed countries and see their interests fundamentally different from ours despite the degree to which we bore the global economy on our shoulders during the recent financial crises. Under such circumstances, talks are often unable to construct agreements which rise above the lowest common denominator.

I have also learned some hard lessons from the sanctions negotiations in which I have been so deeply engaged. Unilateral sanctions rarely work, although they must be resorted to at times to defend U.S. values. Multilateral sanctions, while far hard to fashion, are the only ones likely to achieve the desired results in terms of changing target country behavior. Sanctions should be targeted to the state or entity whose behavior we are trying to change rather than to companies from third countries who are investing or trading there, as much as we might oppose their involvement. Third countries see such sanctions as extraterritorial. It is also critically important that sanctions legislation contain a provision for Presidential waiver authority, to protect the national interest and provide negotiating leverage. In the Helms-Burton and ILSA negotiations, it was definitely the possibility that sanctions would be waived that persuaded the EU to take actions which furthered the purposes of both statutes.

Let me finally say a few personal words, as a noncareer politically appointed diplomat to a roomful of men and women who have devoted their lives to the art of diplomacy. I have learned during the Clinton Administration, even more than as President Carter's chief domestic advisor, what a privilege it is to represent the United States both as an Ambassador and in international negotiations around the world. The power, the majesty, the moral values, and the influence of our nation gives anyone negotiating for the United States a greater ability to accomplish his or her goals than would be possible representing any other country. These are precious resources, which we must husband, nurture and deploy in ways that do not dissipate our innate advantage. I hope in the next century, the United States will, through the art of diplomacy, use its enormous capacity to do good to make this a better world.

Thank you for your award, and continue in your important work.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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Weekly Release of U.S. Reserve Assets

December 7, 1999

The Treasury Department today released U.S. reserve assets data for the week ending December 3, 1999.

As this table indicates, U.S. reserve assets totaled $72,120 million as of December 3, 1999, down from $72,410 million as of November 26, 1999.

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

1999 Week Ending	Total Reserve Assets	Gold Stock 1/	Special Drawing Rights 2/	Foreign Currencies 3/ ESF	Foreign Currencies 3/ SOMA	Reserve Position in IMF 2/
November 26, 1999	**72,410**	11,049	10,344	16,121	16,123	18,773
December 3, 1999	**72,120**	11,049	*10,321*	16,009	16,011	*18,731*

1/ Gold stock is valued monthly at $42.2222 per fine troy ounce. Values shown are as of October 31, 1999. The September 30, 1999 value was $11,047 million.

2/ SDR holdings and the reserve position in the IMF are based on IMF data and valued in dollar terms at the official SDR/dollar exchange rate. Consistent with current reporting practices, IMF data for November 26, 1999 are final. Data for SDR holdings and the reserve position in the IMF shown as of December 3, 1999 (in italics) reflect preliminary adjustments by the Treasury to the November 26, 1999 IMF data.

3/ Includes holdings of the Treasury's Exchange Stabilization Fund (ESF) and the Federal Reserve's System Open Market Account (SOMA). These holdings are valued at current market exchange rates or, where appropriate, at such other rates as may be agreed upon by the parties to the transactions.

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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
December 07, 1999

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 52-WEEK BILLS

Term:	364-Day Bill
Issue Date:	December 09, 1999
Maturity Date:	December 07, 2000
CUSIP Number:	912795EJ6

High Rate: 5.350% Investment Rate 1/: 5.670% Price: 94.591

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 87%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 29,397,590	$ 8,615,750
Noncompetitive	794,575	794,575
PUBLIC SUBTOTAL	30,192,165	9,410,325 2/
Foreign Official Refunded	590,000	590,000
SUBTOTAL	30,782,165	10,000,325
Federal Reserve	4,815,000	4,815,000
Foreign Official Add-On	0	0
TOTAL	$ 35,597,165	$ 14,815,325

Median rate 5.345%: 50% of the amount of accepted competitive tenders ias tendered at or below that rate. Low rate 5.260%: 5% of the amount ›f accepted competitive tenders was tendered at or below that rate.

ǐd-to-Cover Ratio = 30,192,165 / 9,410,325 = 3.21

./ Equivalent coupon-issue yield.
/ Awards to TREASURY DIRECT = $573,915,000

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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
December 9, 1999

Contact: Bill Buck, Treasury Department
(202) 622-2960
Helen Szablya, CDFI Fund
(202) 622-8401

SECRETARY SUMMERS RECOGNIZES 1999 CDFI FUND AWARDEES

Treasury Secretary Lawrence H. Summers on Thursday honored the recipients of the Community Development Financial Institutions (CDFI) Fund's 1999 awards.

"The First Lady likes to say it takes a village to raise a child. At Treasury we like to add that it takes capital to build a village," Secretary Summers said. "Through CDFIs, communities are coming together to bring prosperity to areas that have not seen prosperity."

The awards, totaling more than $112 million, were given to more than 250 banks, thrifts and community development financial institutions through CDFI Fund programs.

The mission of the CDFI Fund is to promote economic growth and access to capital in communities across the country by directly investing in and by expanding the ability of financial service organizations' to lend, invest, and provide services in underserved markets.

The CDFI Fund leverages Federal dollars by requiring that participating institutions provide at least a dollar-for-dollar match with funds from non-Federal sources for the assistance it receives through the CDFI program's core and intermediary components. CDFI award recipients are held to performance standards that help ensure that the CDFI Fund's investment will result in a significant community impact. Local organizations make the decisions about how to best meet community needs.

Since 1996 the CDFI Fund has provided more than $300 million to promote community and economic development and to encourage private sector investment in underserved markets.

Please visit the Fund's website http://www.treas.gov/cdfi for a complete listing of the 1999 CDFI awards.

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DEPARTMENT OF THE TREASURY

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FOR IMMEDIATE RELEASE
December 9, 1999

Contact: Lydia Sermons
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STATEMENT BY TREASURY DEPUTY SECRETARY STUART E. EIZENSTAT ON HOLOCAUST FORCED AND SLAVE LABOR NEGOTIATIONS

We are working on a number of fronts to bridge the gap between the parties. I had a constructive discussion today with Count Lambsdorff, Germany's representative. The plaintiff's attorneys are conducting intensive meetings this week. I expect to be in touch with Count Lambsdorff by early next week on the status of the talks.

I believe that it would be a tragedy for this initiative to collapse now when the parties are closer than they have ever been to a settlement amount. This is the time for all sides to be flexible, to remain calm and to stay with this process, which offers the best chance of providing prompt justice to surviving slave and forced laborers and legal peace for German companies in the U.S.

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DEPARTMENT OF THE TREASURY

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FOR IMMEDIATE RELEASE
December 9, 1999

Contact: Steve Posner
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TREASURY CURBS "BOSS" TRANSACTION TAX SCHEME

The Treasury Department and the Internal Revenue Service on Thursday issued a notice to curb another marketed tax scheme -- the so-called Bond and Option Sales Strategy, or BOSS transaction. In this scheme, taxpayers and promoters use a series of contrived steps in an attempt to generate tax losses to offset income from other transactions.

"We will continue to go after abusive schemes and shelters as they come to our attention," Treasury Secretary Lawrence H. Summers said. "Our aim is to build on a culture of compliance by protecting those who willingly pay their fair share."

The notice alerts taxpayers and promoters that the Treasury and IRS believe that the purported losses arising from such transactions are artificial and are not properly allowable. The notice also informs taxpayers and promoters that penalties may be imposed.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR IMMEDIATE RELEASE
December 9, 1999

STATEMENT BY TREASURY SECRETARY LAWRENCE H. SUMMERS

For many of the world's poorest countries the promise of the new century began three weeks early when the IMF Board last night decided to begin financing its part of the Heavily Indebted Poorest Countries (HIPC) initiative. I welcome the Board's decision to begin the revaluation of its gold resources to the potential benefit of half a billion people in the world's poorest countries. The IMF's decision is another important step towards the financially sound and morally right fiscal practice of reducing debt and channeling the benefits into successful poverty reduction.

At the same time, the promise of the new century cannot be truly realized until the U.S. fulfills its responsibility to ensure that the HIPC initiative is fully funded. This accounting change will help reduce poverty around the world without impacting the gold market. I look forward to working with Congress, beginning early next year, to deliver the resources necessary to make this global initiative a complete reality.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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Text as prepared for Delivery
December 9, 1999

UNDER SECRETARY FOR ENFORCEMENT JAMES E. JOHNSON REMARKS BEFORE THE IACP SUMMIT ON GUN INTERDICTION STRATEGIES

Thank you for very much for that kind introduction. I want to thank the leadership of the International Association of Chiefs of Police (IACP) for their contributions to law enforcement and for their support of law enforcement policies that will lead us into the new millennium. Bob Ward, Deputy Director of the Bureau of Justice Assistance, please express my appreciation to Nancy Gist, Director of BJA, for having the vision to fund a program that will provide training and assistance for State and local law enforcement to develop gun interdiction strategies in partnership with federal law enforcement.

A key mission of the Department of Treasury is ensuring economic security for the American taxpayer. Equally important in Treasury's mission and just as fundamental for the health of our nation is security of a different order – ensuring the safety of our communities, schools, and workplaces.

This is why I am pleased to be here today to discuss the Treasury Department's efforts, and those of the Bureau of Alcohol, Tobacco and Firearms, to support effective federal, State, and local partnerships to develop gun enforcement strategies.

Overview of Accomplishments

Since 1992, the rate of violent crime in our nation has dropped by 20 percent. During the same period, violent crime with guns fell by more than 35 percent. Homicides with guns have dropped an average of 7 percent annually since 1993. From 1997 to 1998, the drop in the number of homicides with guns was greater than the decline in homicides overall. This means we are gaining on the gun problem faster than on the overall homicide problem. And we believe this trend shows that federal, State, and local law enforcement are on the right track.

But the arrest rates for young people for both murder and weapons offenses are still well above the rates in the years before the rise of the crack cocaine markets. In 1997, firearms were

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related to more than 42,000 deaths, and firearms remained the second leading cause of injury-related death in the United States behind motor vehicles. An average of 265 persons per day sustained gunshot wounds in 1997. Gun violence is still at an intolerable level in our country. We must do more and we are committed to doing more.

Let's begin by looking at how far we have come on this issue in the last few years. When the Administration began, felons could walk into gun stores and buy guns, because there was no system in place to check a purchaser's criminal history record. Gun store owners had no obligation to notify authorities of gun thefts, or to respond immediately to gun trace requests by law enforcement. Assault weapons could be manufactured and sold. It was legal under federal law for young people to possess handguns, and for anyone to give guns to children.

In the mid-1990s, Congress agreed with the Administration that, in order to reduce violent crime, something needed to be done about easy access to guns. The Brady law in 1993 and the Crime Act in 1994 made major improvements in the gun laws. Under the Brady law, we established the National Instant Check System to conduct background checks on gun buyers. Congress also reformed the gun dealer licensing system. Licensees have to pay more for licenses now, and they have to comply with all State and local laws, in addition to federal law, in order to obtain a license. Congress for the first time required dealers to report stolen guns and to cooperate with police in tracing guns. Congress increased penalties for possessing stolen guns, and prohibited juvenile gun possession and transferring guns to minors. Congress also banned certain semiautomatic weapons and magazines with more than ten rounds.

To continue moving forward in our efforts to reduce violent crime, we need a multi-tracked approach. Today, I will talk about three areas: crime gun tracing, enforcement of the gun laws, and legislative proposals.

<u>Tracing</u>

Overview. Tracing is an area in which we've made enormous strides, but still have work to do. In 1996, President Clinton asked ATF to make a systematic effort to find out how young people were obtaining guns and to work with police departments and prosecutors to shut down illegal channels of supply. We found there was surprisingly little information on how young people obtained guns. In fact, there was surprisingly little information about how criminals obtained their crime guns.

So the first thing that was needed was to fill the information gap. ATF began working with police departments to use the tracing of guns recovered by police to find out where the guns used in crime were first sold, and how juveniles and criminals obtained their guns. ATF developed a software system, Project LEAD, to help analyze the crime gun information and develop leads for cases from it. ATF also began working with police and prosecutors to begin questioning young people arrested with guns about how they got them.

ATF's *Youth Crime Gun Interdiction Initiative*, which uses all these methods, is now underway in 37 cities, with many other police departments joining in gun tracing. By working together to trace crime guns, ATF and police have learned a great deal about where guns used in crime are coming from, and have produced real enforcement results.

What have they accomplished? Law enforcement officials have arrested hundreds of illegal suppliers to young people. Gun tracing led law enforcement authorities to the 18-year-old who provided the Columbine shooters with one of the guns they used. Law enforcement agencies have identified numerous illegal channels, including straw purchases through knowing adults. They are fighting off-the-books sales by corrupt gun dealers. They have made arrests from smash and grab thefts from gun stores. They have prosecuted unlicensed dealers on the street and at gun shows. They have blocked drug-gun swaps, and stopped fences selling guns stolen from stores, trucks, and homes.

The most important result of this factfinding and enforcement effort has been the end of the myth that there is nothing that State and city officials, gun store owners, federal agents, and police can do to stop the illegal flow of guns into our inner cities and into young people's hands.

ATF continues to work with State and local law enforcement agencies to expand the tracing system, to facilitate tracing, and to deliver more analytical products to State and local agencies. Indeed, Treasury's primary focus is actions to provide the men and women on the front lines of law enforcement, including our State and local law enforcement partners, with the best possible tools to combat firearms violence.

The National Tracing Center now has information from over 1 million crime gun trace requests, with the yearly number of traces increasing from about 50,000 in 1993 to about 200,000 last year. Just last month, we launched Online LEAD, which allows investigators to access all this information within 24 hours of ATF adding new traces to the Firearms Tracing System. State and local investigators will be able to access this information through ATF field offices throughout the country.

Project LEAD can search crime gun data contributed from around the country, and make connections that investigators could not have made before. Joint task forces will be able to mount new enforcement initiatives, intercept straw purchases, stop corrupt gun dealers, and arrest firearms traffickers. This is *preventive* enforcement that interdicts illegally supplied guns *before* criminals can use them in violent crimes. It complements enforcement initiatives that target armed criminals.

Role of Gun Dealers. Because so many law enforcement agencies are now tracing all recovered firearms, we now know a great deal more about the role of retail gun stores--both gun dealers and pawnbrokers--in the availability of guns to criminals and juveniles. We have a much clearer picture of which retail outlets are associated with crime guns. It is important to remember that just because a gun is traced to a particular retail transaction does not mean that the dealer was associated with the supply of the gun to a prohibited person. However, crime gun traces provide an indicator of illegal trafficking that agents and inspectors can further investigate. This trafficking may involve straw purchasing by individuals or rings, or illegal dealing by the gun dealer itself.

While most gun dealers are not associated with crime guns, there are many hundreds that do constitute a source of supply to criminals and are causing serious problems. This is an important area of focus for federal, State and local law enforcement. In addition, we believe that the gun industry itself needs to take more action to address the problem of leakage from the legal to the illegal market in firearms. This leakage can be off the production line, during transportation of the guns, or from the retail outlets. At each step of the way, more precautions, more monitoring, and more intervention are needed.

Ballistics Imaging. A next step in our tracing capacity is ballistics imaging. Many gun crimes do not result in the recovery of a firearm. ATF and the FBI have both worked to develop ballistics imaging systems that assist in solving crimes and tracing guns when the gun itself is not recovered at the scene of a crime. Ballistics imaging works by recording the pattern of bullet casings into a database. The bullet casings from every semiautomatic weapon make a unique marking. If that marking is entered into the system, then bullets or casing recovered from a crime scene can be traced to the gun.

The story of a crime gun is often a story of many crimes -- multiple owners involved in multiple crimes. By combining the use of ballistics imaging and crime gun tracing, law enforcement officials can solve many more crimes than are now being solved. Over the next several years, we will be working hard to deploy these tools as widely as possible throughout the country for as many law enforcement agencies as possible.

<u>Enforcement</u>

Along with passing and implementing the 1994 gun legislation and developing new tools for law enforcement to use, the Administration has focused on vigorous, smarter and more community-based enforcement of the gun laws. Our enforcement strategy has four critical and interlocking components: <u>first</u>, prosecution and imprisonment of those who use a gun illegally; <u>second</u>, deterrence; <u>third</u>, illegal supply reduction; and <u>fourth</u>, prevention.

The intentional misuse of a firearm must receive swift, certain and severe punishment. To this end, Treasury and the Department of Justice have worked with State and local law enforcement to closely coordinate our enforcement efforts to ensure the most effective use of available sanctions. By bringing together our enforcement efforts, we set clear standards of behavior for violent offenders and potential violent offenders, heightening deterrence.

In addition to targeting illegal users of guns, we must focus efforts on illegal suppliers of guns. We must make it as difficult as possible for criminals, unauthorized juveniles, and other prohibited persons to get their hands on guns by shutting them out of the legal firearms market and closing down the illegal markets. To this mix, we must add prevention. An enforcement strategy aimed at illegal suppliers is becoming part of local programs that combine law enforcement with involvement by community institutions to help young people *avoid or leave behind* violent activity. When Boston put in place this type of strategy, there was a decrease of more than 60 percent in juvenile and youth homicide, and a reduction in weapon carrying. We are impressed by Boston's achievement. We are working hard on adopting enforcement strategies like Boston's that combine vigorous prosecution with measures to strengthen communities and police-community relations.

Legislation

Smarter, collaborative law enforcement has highlighted the fact that law enforcement can make communities *substantially* safer. But current law does not allow us to do all that we could do to keep young people and others who should not have them from getting guns. Many guns are sold at gun shows and elsewhere where there are no background checks and no tracing records. This means that under-age buyers and felons can buy guns easily, and the gun sellers are not held accountable. Young people can easily take guns from homes where parents keep a loaded and unlocked handgun.

To begin addressing these problems, the President last spring proposed legislation to strengthen the gun laws. The legislation as adopted in Senate and House bills would close a number of loopholes and toughen penalties on illegal traffickers. It would also require that guns be sold with safety locks so that owners at least are presented with the option of securing them. And it would limit the importation of ammunition feeding devices used in semiautomatic assault weapons that contain more than 10 rounds. This gun legislation, which awaits action in Congress, will help reduce gun violence. We will continue to call on Congress to pass rational gun legislation.

It took the assassinations of Senator Robert Kennedy and Dr. Martin Luther King to persuade Congress to pass the 1968 Gun Control Act. A terrible increase in youth gun deaths, and tragedy at several high schools, brought the issue back into national focus after a quarter century. We have succeeded in making guns a part of the national agenda. But community by community, and in national legislation, we have to keep working hard on new gun interdiction strategies, promoting *comprehensive* strategies. And, we have to propose, and win passage of, new laws that will reduce the easy availability of guns in our society.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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TREASURY ACTING ASSISTANT SECRETARY FOR TAX POLICY JONATHAN TALISMAN REMARKS TO THE GWU/IRS ANNUAL INSTITUTE ON CURRENT ISSUES IN INTERNATIONAL TAXATION WASHINGTON, D.C.

It is a pleasure to be here today to discuss several topics of current interest in the international tax arena. Let me begin with corporate tax shelter developments, particularly focusing my remarks on the international front. Second, I will describe the approach we're taking, and give you a progress report on, Treasury's deferral study. Finally, I will briefly discuss the future of foreign sales corporations.

In 1986, the Congress cured with almost instant results the corrosive effect of tax shelter activities that were eating away the individual income tax base, swamping the IRS and the Tax Court with controversies, and causing a cynical attitude toward the tax law among many Americans.

Today we are faced with a similar problem affecting the integrity of the tax system -- the recent proliferation of corporate tax shelters -- that warrants great concern and merits concerted action, both legislative and administrative. When we started working on our study of corporate tax shelters late last year, our first goal was to raise awareness that there was a problem and to explore the nature of the problem. Now, it is clear that there is widespread agreement and concern among tax professionals that the corporate tax shelter problem is large and growing.

Earlier this year, the American Bar Association testified about its "growing alarm [at] the aggressive use by large corporate taxpayers of tax 'products' that have little or no purpose other than the reduction of Federal income taxes," and its concern at the "blatant, yet secretive marketing" of such products. The staff of the Joint Committee on Taxation, the New York State Bar Association, the Tax Executives Institute, and others have echoed these comments.

These corporate tax shelter transactions can be particularly pernicious in the international context. For example, yesterday you heard about cross-border arbitrage transactions. Cross-border arbitrage schemes compound the vices of other tax shelters, because they can threaten the

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revenue base not only in this country, but in other countries at the same time. In addition, they may be more difficult to audit because of their complexity and because their underlying documentation may be more difficult to obtain.

Our budget proposals last year recognized that, as transactions in general become more internationalized, corporate tax shelters are also becoming more internationalized. We included a number of targeted provisions, aimed at specific tax shelter transactions that take advantage of the opportunities for tax avoidance available in the international area.

Also, some of the most significant administrative and enforcement actions taken in the past year focussed on cross border deals. The Compaq decision, involving abusive foreign tax credit claims, bolstered positions we had taken previously in Notice 98-5. The UPS decision condemned abusive taxpayer practices involving cross-border "captive" insurance. And the recently issued check-the-box anti-abuse rule targets aggressive uses of the entity classification rules to achieve international tax results that may be different than those that could have been achieved without them.

We proposed these rules because we believe that check-the-box was not intended to facilitate tax avoidance by the simple expedient of filing a piece of paper. We agree with those practitioners who have told us that these transactions should not be allowed, and that other, more aggressive transactions should be targeted as well. Check-the-box offered, and continues to offer, many advantages to both taxpayers and the government in terms of simplicity and administrative ease. In the international context, however, we are going to continue to monitor check-the-box, and act when appropriate, through regulations, litigation or other means.

What we have found over time, however, is that addressing tax shelters transaction-by-transaction is like attempting to slay the mythological "Hydra". You kill off one over here and two or three more appear over there. Already, this year, we have shut down so-called "chutzpah trusts" which were similar to a structure shut down by Congress in 1997 and we are now hearing about "Son of LILO." The "BOSS" transaction that we curbed yesterday by notice is a derivation on the section 357(c) product. Promoters, like computer hackers, will continue to search for defects in the code to exploit, and taxpayers with an appetite for tax shelters will simply move from those transactions that are specifically prohibited by the new legislation to other transactions the treatment of which has not been definitively proscribed.

Our goal is to curtail the development, marketing, and purchase of corporate tax shelters, frequently sold as "products" off the rack to produce a substantial reduction in a corporation's tax liability. To do this, we have identified the common sources and characteristics of shelters, and incorporated these identified filters into our budget proposals, so that we may address these abusive, tax-engineered transactions in a more global manner, hopefully preventing most from occurring. We must change the tax shelter cost/benefit analysis in a manner sufficient to deter these artificial transactions. The Treasury Department believes this global solution should include four parts:

(1) increasing disclosure of corporate tax shelter activities,
(2) increasing and modifying the penalty relating to the substantial understatement of income tax,
(3) codifying the economic substance doctrine, and
(4) providing consequences to all the parties to the transaction (e.g., promoters, advisors, and tax-indifferent, accommodating parties).

These proposals are intended to change the dynamics on both the supply and demand side of this 'market' – making it a less attractive one for all participants -- 'merchants' of abusive tax shelters, their customers, and those who facilitate the transactions. All the participants to a structured transaction should have an incentive to assure that the transaction comports with established principles.

I would like to emphasize a few key points. First, there is widespread agreement that increased disclosure and changes to the penalty regime are necessary to uncover transactions and change the cost/benefit analysis of entering into corporate tax shelters. However, we do not believe that these procedural remedies alone are enough. We believe the economic substance doctrine must be codified, thus requiring taxpayers to perform a careful analysis of the pre-tax effects of a potential transaction before they enter into it.

The centerpiece of the substantive law proposal is not a new standard, but rather is intended as a coherent articulation of the economic substance doctrine first found in seminal case law such as *Gregory v. Helvering* and most recently utilized in ACM, Compaq, IES and Winn Dixie. The economic substance doctrine requires a comparison of the expected pre-tax profits and expected tax benefits. Codification of the doctrine would create a consistent standard so that taxpayers may not pick and choose between conflicting decisions to support their position. Codification also would isolate the doctrine from the facts of the cases so that taxpayers could not simply distinguish the cases based on the facts.

Second, the proposed legislation would be inadequate without effective enforcement. The Internal Revenue Service is undergoing a substantial restructuring. This restructuring will concentrate IRS resources relating to corporate tax shelters, enabling it to identify, focus on, and coordinate its efforts against corporate tax shelters in a more efficient manner, while instituting and maintaining appropriate taxpayer safeguards. The enactment of corporate tax shelter legislation, combined with the efforts of the restructured IRS, will deter abusive transactions before they occur and uncover and stop these transactions to the extent they continue to occur. We are working closely with Commissioner Rossotti, Larry Langdon, Stuart Brown, and others at the Service to develop the best overall approach to address corporate tax shelters in the restructured IRS.

Let me assure you, however, the Treasury Department does not intend to affect legitimate business transactions and looks forward to working with the tax-writing committees and the private sector in refining the corporate tax shelter proposals, particularly our articulation of the economic substance doctrine. Our white paper already made substantial revisions to our original

Budget proposals in response to comments we received. Further, to prevent interference with legitimate business transactions, the IRS and we are considering whether to require examining agents to refer corporate tax shelter issues to a centralized office for consideration. Such a referral process might be similar to that used with respect to the partnership anti-abuse regulations. The IRS also is considering whether to establish a procedure whereby a taxpayer could obtain an expedited ruling from the IRS as to whether a contemplated transaction constitutes a corporate tax shelter.

The proliferation of corporate tax shelters presents an unacceptable and growing level of tax avoidance behavior by wasting economic resources, reducing tax receipts, and threatening the integrity of the tax system. Secretary Summers, the Commissioner, and the Office of Tax Policy are committed to a concerted approach for combating this problem. We will continue to seek appropriate changes to address this problem and take all appropriate actions to shut down abusive transactions as we become aware of them.

My next subject is our study of subpart F. For as those of you who are students of subpart F know, and as I am increasingly finding out as we plumb the depths of subpart F in connection with our subpart F study, the U.S. anti-deferral rules are largely about preventing double non-taxation. As pointed out yesterday, double non-taxation is just as far off the mark as double taxation. Put another way, the subpart F debate is about U.S. tax, and when we should allow lower U.S. tax on foreign income than domestic income.

When subpart F was enacted some 37 years ago, no other country had a regime like it. Most of them didn't need it, because exchange controls ensured that their residents didn't send all of their money abroad. Since then, however, virtually all of our major trading partners have adopted CFC rules, while U.S. companies have become ever stronger, and the U.S. economy has become the envy of the world.

Nevertheless, we think that these rules should be reexamined, and we are in the process of doing just that. At this meeting last year, then-Assistant Secretary Don Lubick announced that we would be undertaking a study of the subpart F regime. I am pleased to report that, as Don promised, we are nearing completion of a report that is extensive, objective, and responsive to the evidence, even when that evidence says our current rules may need reform. The study, we hope, will serve as a tool to promote discussion. Thus, upon completion of the study, we will be seeking your comments – to continue what I hope will be a productive process.

To determine what subpart F was intended to achieve, the study examines the events that led to the introduction of the statute and its legislative history. The study then asks what subpart F should achieve: how should we tax foreign income in order to maximize our economic welfare? It asks whether there is continuing validity to the economic views that helped to mold subpart F forty years ago. In studying this we have been particularly interested in trying to determine whether new economic research -- particularly that done in the last ten years -- has affected the validity of the standard analysis that the best policy is to tax domestic income at the same rates as foreign income.

The study then takes a hard look at the issue of competitiveness. I will confess that we are having great difficulty saying with any degree of confidence that U.S. competitiveness is adversely affected by subpart F. Moreover, we are struck by the fact that, in 1962, generally competitiveness advocates did not advocate salting away income in tax havens, whereas today, we hear arguments that competitiveness requires just that.

Our study also evaluates the extent to which subpart F is achieving what it should be achieving. In other words, even if the current rules are aimed in the right direction, are they being easily circumvented? Are they well-suited to the way business is done today? Are they well-suited to the way business will be done in the new millennium?

In particular, we are looking at the extent to which the rules may need to change in light of new technologies, including new communications technologies and electronic commerce. For example, with respect to services like Internet access, remote database access, remote order processing and video conferencing, new technologies may make it difficult to determine where the services are performed. So rules that depend on identifying the place of performance for services may not be well suited to the new millennium. Similarly, new technologies may make it difficult to determine the place of use, consumption or disposition with respect to electronically delivered digitizable products, such as images music and computer software. To the extent the Subpart F rules rely on place of use, those rules may become increasingly difficult to apply.

Moreover, new technologies increase the ease with which employees of a CFC can be located outside the CFC's jurisdiction of incorporation and increase the ability of CFCs to acquire products and services remotely. This increases the opportunities for CFCs to be incorporated in low- or no-tax jurisdictions while they provide services to others located elsewhere. Are our rules well-designed to ensure that the appropriate amount of subpart F income is imposed in these cases?

For example, "foreign base company services income" includes only income from services that are performed outside the country under the laws of which the CFC is organized. Assume a U.S. corporate vendor of goods over the Internet establishes a wholly-owned CFC to process customer orders and arrange for product delivery through the use of the CFC's offshore computer servers and other equipment located in the country in which the CFC is organized. Through such an arrangement, the U.S. vendor may be able to isolate offshore income associated with that processing and delivery function with no corresponding income inclusion under subpart F, unless it is determined that the services are performed outside the CFC's country of organization.

These issues may not be unique to CFCs engaged in electronic commerce. Some of the same issues arise, for example, with respect to financial services businesses as well as businesses involved in more traditional activities, such as the development and manufacturing of tangible goods. Electronic commerce and new technologies do, however, affect the ease with which innovative business structures can be used and the ease with which tax havens can be exploited.

The use of tax havens is an area of great concern to us at the Treasury. These jurisdictions, through strict bank secrecy and other means, facilitate tax avoidance and evasion, thereby shifting the burden of collecting necessary revenue to honest taxpayers and undermining the integrity and fairness of the U.S. tax system. The use of tax havens appears to be expanding and will require the United States to respond.

We will examine our own laws to determine what changes are required to prevent the exploitation of tax havens in ways that reduce US taxes inappropriately. And we will continue our work with the international community to develop collective responses to the problems raised by tax havens, including responses that encourage these jurisdictions to cooperate with us so that their financial systems no longer act as a barrier to the effective enforcement of our laws.

For example, in the area of bank secrecy, the United States has been actively promoting information exchange in the OECD and elsewhere to address the concerns raised by the strict bank secrecy laws and practices that exist in some countries. It should go without saying that these laws and practices present significant difficulties for the IRS, which is charged with administering the tax laws fairly for all taxpayers. But these secrecy laws should also concern the U.S. financial community, which has to compete with banks operating in these bank secrecy jurisdictions. In the modern global marketplace, where virtually any taxpayer with a computer can choose to bank anywhere around the world, U.S. businesses can no longer rely on geography to protect themselves from this type of unfair competition.

We believe that the growing problems presented by bank secrecy must be dealt with head on, and we have been working with the banking community to promote greater transparency in this area. We do not believe, however, that bank secrecy problems should be dealt with by imposing withholding tax at the source, and abandoning the system of taxation by the country of residence. For this reason, we do not support proposals like the European Union's proposed "coexistence model," which would allow member countries to choose between exchanging information with other countries or withholding tax on payments made to residents of other countries. In our view, this kind of system would be extremely difficult to administer fairly and effectively. Perhaps more importantly, adopting such a system would sanction withholding taxes as an adequate substitute for information exchange. We firmly believe that countries should exchange information to ensure adequate enforcement of the system of residence-based taxation, regardless of whether they choose to impose a withholding tax under their internal laws. We do not believe, however, that divisions over this issue should be allowed to scuttle the important work that has been done in the EU on tax competition

International tax competition occurs when one country provides a tax inducement to attract capital from another country. When practiced unfairly, tax competition can severely erode the capital tax base of the losing country. What does this mean? It means that the losing country may have to make up the lost tax through higher taxes on the income it still can get a hold of, like income from labor -- income from working people like you and me. And although harmful tax competition is commonly practiced by large sophisticated countries, it is most aggressively practised by countries we commonly think of as tax havens

Harmful tax competition distorts investment decisions, erodes tax revenues and undermines fiscal stability. Tackling these practices should help businesses to compete on a level playing field and encourage investment growth and jobs. It will play an important role in promoting the health of the global economy and the global financial system.

That is why the United States has taken a leadership role in the OECD's harmful tax competition work, and the U.S. attaches great importance to working within the OECD and the G7 to develop initiatives supporting fair and effective taxation which promote economic growth. This work can lead to innovations in tax policy, base broadening, and reductions in overall tax rates.

Before closing, I'd like to mention one issue that I know is important to many of you. On October 8, a WTO dispute settlement panel decided in favor of the European Commission's complaint against the United States on the tax exemption for Foreign Sales Corporations (FSCs). The dispute settlement panel found that the FSC tax exemption constitutes an export subsidy in violation of the WTO Subsidies Agreement and the WTO Agriculture Agreement. The decision says that it must be implemented by October 1, 2000.

The United States has appealed the panel's decision to the WTO Appellate Body. The EC just this week cross-appealed on the issues of administrative pricing and the domestic content requirement for export property, issues on which the panel did not make any ruling. We expect that the Appellate Body will deliver its decision in the first quarter of the year 2000, most likely in the late February – early March time frame.

As we have been doing from the outset, Treasury has been working hard to defend the FSC with the U.S. Trade Representative, who is handling the case for the United States. We've also been working closely with Congressional staff and the private sector to try to preserve these provisions that are so important to many of you. Deputy Secretary Eizenstat, Phil West and I have been meeting with outside groups to obtain this input. Our doors continue to be open, and we welcome your input as we continue our work in this area.

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PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
December 14, 1999

Contact: Office of Financing
(202) 691-3550

TREASURY'S INFLATION-INDEXED SECURITIES JANUARY 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 January 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, (4) the 3-5/8% 30-year bonds due April 15, 2028, (5) the 3-7/8% 10-year notes due January 15, 2009, and (6) the 3-7/8% 30-year bonds due April 15, 2029. 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 290. The information is also available on the Internet at Public Debt's website (http://www.publicdebt.treas.gov).

The information for February is expected to be released on January 14, 2000.

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Attachment

LS-290

TREASURY INFLATION-INDEXED SECURITIES
Ref CPI and Index Ratios for
January 2000

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	October 15, 1998	July 15, 1998
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**
Jan. 1 2000	168.20000	1.06163	1.05023	1.04113	1.03994
Jan. 2 2000	168.20323	1.06165	1.05025	1.04115	1.03996
Jan. 3 2000	168.20645	1.06167	1.05027	1.04117	1.03998
Jan. 4 2000	168.20968	1.06169	1.05029	1.04119	1.04000
Jan. 5 2000	168.21290	1.06171	1.05031	1.04121	1.04002
Jan. 6 2000	168.21613	1.06173	1.05033	1.04123	1.04004
Jan. 7 2000	168.21935	1.06175	1.05035	1.04125	1.04006
Jan. 8 2000	168.22258	1.06177	1.05037	1.04127	1.04008
Jan. 9 2000	168.22581	1.06179	1.05039	1.04129	1.04010
Jan. 10 2000	168.22903	1.06181	1.05041	1.04131	1.04012
Jan. 11 2000	168.23226	1.06183	1.05044	1.04133	1.04014
Jan. 12 2000	168.23548	1.06185	1.05046	1.04135	1.04016
Jan. 13 2000	168.23871	1.06188	1.05048	1.04137	1.04018
Jan. 14 2000	168.24194	1.06190	1.05050	1.04139	1.04020
Jan. 15 2000	168.24516	1.06192	1.05052	1.04141	1.04022
Jan. 16 2000	168.24839	1.06194	1.05054	1.04143	1.04024
Jan. 17 2000	168.25161	1.06196	1.05056	1.04145	1.04026
Jan. 18 2000	168.25484	1.06198	1.05058	1.04147	1.04028
Jan. 19 2000	168.25806	1.06200	1.05060	1.04149	1.04030
Jan. 20 2000	168.26129	1.06202	1.05062	1.04151	1.04032
Jan. 21 2000	168.26452	1.06204	1.05064	1.04153	1.04034
Jan. 22 2000	168.26774	1.06206	1.05066	1.04155	1.04036
Jan. 23 2000	168.27097	1.06208	1.05068	1.04157	1.04038
Jan. 24 2000	168.27419	1.06210	1.05070	1.04159	1.04040
Jan. 25 2000	168.27742	1.06212	1.05072	1.04161	1.04042
Jan. 26 2000	168.28065	1.06214	1.05074	1.04163	1.04044
Jan. 27 2000	168.28387	1.06216	1.05076	1.04165	1.04046
Jan. 28 2000	168.28710	1.06218	1.05078	1.04167	1.04048
Jan. 29 2000	168.29032	1.06220	1.05080	1.04169	1.04050
Jan. 30 2000	168.29355	1.06222	1.05082	1.04171	1.04052
Jan. 31 2000	168.29677	1.06224	1.05084	1.04173	1.04054

CPI-U (NSA) for : September 1999 167.9 October 1999 168.2 November 1999 168.3

TREASURY INFLATION-INDEXED SECURITIES
Ref CPI and Index Ratios for
January 2000

Security:	3-7/8% 10-Year Notes	3-7/8% 30-Year Bonds		
Description:	Series A-2009	Bonds of April 2029		
CUSIP Number:	9128274Y5	912810FH6		
Dated Date:	January 15, 1999	April 15, 1999		
Original Issue Date:	January 15, 1999	April 15, 1999		
Additional Issue Date:	July 15, 1999	October 15, 1999		
Maturity Date:	January 15, 2009	April 15, 2029		
Ref CPI on Dated Date:	164.00000	164.39333		

Date			Ref CPI	Index Ratio	Index Ratio		
Jan.	1	2000	168.20000	1.02561	1.02316		
Jan.	2	2000	168.20323	1.02563	1.02318		
Jan.	3	2000	168.20645	1.02565	1.02320		
Jan.	4	2000	168.20968	1.02567	1.02321		
Jan.	5	2000	168.21290	1.02569	1.02323		
Jan.	6	2000	168.21613	1.02571	1.02325		
Jan.	7	2000	168.21935	1.02573	1.02327		
Jan.	8	2000	168.22258	1.02575	1.02329		
Jan.	9	2000	168.22581	1.02577	1.02331		
Jan.	10	2000	168.22903	1.02579	1.02333		
Jan.	11	2000	168.23226	1.02581	1.02335		
Jan.	12	2000	168.23548	1.02583	1.02337		
Jan.	13	2000	168.23871	1.02585	1.02339		
Jan.	14	2000	168.24194	1.02587	1.02341		
Jan.	15	2000	168.24516	1.02589	1.02343		
Jan.	16	2000	168.24839	1.02590	1.02345		
Jan.	17	2000	168.25161	1.02592	1.02347		
Jan.	18	2000	168.25484	1.02594	1.02349		
Jan.	19	2000	168.25806	1.02596	1.02351		
Jan.	20	2000	168.26129	1.02598	1.02353		
Jan.	21	2000	168.26452	1.02600	1.02355		
Jan.	22	2000	168.26774	1.02602	1.02357		
Jan.	23	2000	168.27097	1.02604	1.02359		
Jan.	24	2000	168.27419	1.02606	1.02361		
Jan.	25	2000	168.27742	1.02608	1.02363		
Jan.	26	2000	168.28065	1.02610	1.02365		
Jan.	27	2000	168.28387	1.02612	1.02367		
Jan.	28	2000	168.28710	1.02614	1.02369		
Jan.	29	2000	168.29032	1.02616	1.02371		
Jan.	30	2000	168.29355	1.02618	1.02372		
Jan.	31	2000	168.29677	1.02620	1.02374		

CPI-U (NSA) for : September 1999 167.9 October 1999 168.2 November 1999 168.3

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
December 13, 1999

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Term:	91-Day Bill
Issue Date:	December 16, 1999
Maturity Date:	March 16, 2000
CUSIP Number:	912795DM0

High Rate: 5.210% Investment Rate 1/: 5.368% Price: 98.683

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 55%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 26,691,879	$ 7,294,379
Noncompetitive	1,387,679	1,387,679
PUBLIC SUBTOTAL	28,079,558	8,682,058 2/
Foreign Official Refunded	320,100	320,100
SUBTOTAL	28,399,658	9,002,158
Federal Reserve	3,729,310	3,729,310
Foreign Official Add-On	0	0
TOTAL	$ 32,128,968	$ 12,731,468

Median rate 5.200%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 5.120%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 28,079,558 / 8,682,058 = 3.23

1/ Equivalent coupon-issue yield.
2/ Awards to TREASURY DIRECT = $1,059,676,000

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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
December 13, 1999

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Term:	182-Day Bill
Issue Date:	December 16, 1999
Maturity Date:	June 15, 2000
CUSIP Number:	912795EA5

High Rate: 5.410% Investment Rate 1/: 5.655% Price: 97.265

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 58%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 21,174,650	$ 5,340,650
Noncompetitive	1,097,497	1,097,497
PUBLIC SUBTOTAL	22,272,147	6,438,147 2/
Foreign Official Refunded	1,570,000	1,570,000
SUBTOTAL	23,842,147	8,008,147
Federal Reserve	3,690,000	3,690,000
Foreign Official Add-On	0	0
TOTAL	$ 27,532,147	$ 11,698,147

Median rate 5.395%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 5.290%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 22,272,147 / 6,438,147 = 3.46

1/ Equivalent coupon-issue yield.
2/ Awards to TREASURY DIRECT = $803,126,000

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

EMBARGOED UNTIL 2:30 P.M.
December 16, 1999

CONTACT: Office of Financing
202/691-3550

TREASURY OFFERS 13-WEEK AND 26-WEEK BILLS

The Treasury will auction two series of Treasury bills totaling approximately $17,000 million to refund $14,192 million of publicly held securities maturing December 23, 1999, and to raise about $2,808 million of new cash.

In addition to the public holdings, Federal Reserve Banks for their own accounts hold $6,739 million of the maturing bills, which may be refunded at the highest discount rate of accepted competitive tenders. Amounts issued to these accounts will be in addition to the offering amount.

The maturing bills held by the public include $2,746 million held by Federal Reserve Banks as agents for foreign and international monetary authorities, which may be refunded within the offering amount at the highest 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.

TreasuryDirect customers requested that we reinvest their maturing holdings of approximately $904 million into the 13-week bill and $680 million into the 26-week bill.

This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular for the Sale and Issue of Marketable Book-Entry Treasury Bills, Notes, and Bonds (31 CFR Part 356, as amended).

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

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Attachment

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HIGHLIGHTS OF TREASURY OFFERINGS OF BILLS
TO BE ISSUED DECEMBER 23, 1999

December 16, 1999

<u>Offering Amount</u>	$9,000 million	$8,000 million
<u>Description of Offering:</u>		
Term and type of security	91-day bill	182-day bill
CUSIP number	912795 DN 8	912795 EB 3
Auction date	December 20, 1999	December 20, 1999
Issue date	December 23, 1999	December 23, 1999
Maturity date	March 23, 2000	June 22, 2000
Original issue date	September 23, 1999	June 24, 1999
Currently outstanding	$11,447 million	$14,851 million
Minimum bid amount and 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 highest 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</u>
<u>at a Single Rate</u> .... 35% of public offering

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

<u>Receipt of Tenders:</u>

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

<u>Payment Terms:</u> By charge to a funds account at a Federal Reserve Bank on issue date, or payment of full par amount with tender. *TreasuryDirect* customers can use the Pay Direct feature which authorizes a charge to their account of record at their financial institution on issue date.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

EMBARGOED UNTIL 6:00 PM (LOCAL TIME)
Text as Prepared for Delivery
December 14, 1999

"THE RIGHT KIND OF IMF FOR A STABLE GLOBAL FINANCIAL SYSTEM"
TREASURY SECRETARY LAWRENCE H. SUMMERS REMARKS TO
THE LONDON SCHOOL OF BUSINESS
LONDON, ENGLAND

These are challenging times for the international community. That globalization offers enormous potential for raising global living standards and opportunities is not in question. What is, in many ways, the public challenge of our time is showing all of the world's citizens that international integration will work for them.

No part of that challenge will be more important for global prosperity than helping countries to develop the capacity to realize the benefits of a global flow of capital and to manage its risks. This is the goal at the heart of the global initiative that has come to be called the reform of the international financial architecture, which will take another step forward this week in Berlin as finance ministers and central bank governors from key industrial and emerging market economies gather for the first regular meeting of the G20.

There are many aspects of financial architecture. Today I would like to draw on recent experiences and the active debate that these have provoked to consider the future role of the IMF. This seems an appropriate occasion to focus on the IMF because, for the moment, the crisis of recent years has passed, and the prospect of new leadership at the IMF is drawing near.

Recent events have reaffirmed that the IMF is indispensable. We would all of us involved with global finance be breathing less easily this holiday season if the IMF had not taken the steps that it did in response to the crises in Asia and elsewhere. But as I have said many times, to say that the IMF is indispensable is not to say that we can be satisfied with the one we now have.

The founders of the Bretton Woods institutions more than half a century ago were right to recognize that there could be no successful global integration without financial stability within countries and a well-functioning system for the flow of capital between them. This was the painful lesson of the 1930s, when the absence of an effective international response to financial panics helped pave the way for deflation and depression -- and ultimately, World War II. The same lesson has been taught again and again in the postwar period.

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While that insight remains valid today – indeed, has been pointed up by recent events in Asia and elsewhere – a great deal in the global economy has changed since Bretton Woods. The framing new reality of the late 20th century global financial system is that the private sector is the overwhelming source of capital for growth.

This has been true domestically and increasingly in the flow of capital to emerging markets:

- In the 1990s, nearly $1.3 trillion in private capital has flowed to the emerging market economies, compared to around $170 billion in the previous decade.

- In 1990, one emerging market economy issued a sovereign Eurobond. In 1998, nearly twenty did.

As we have seen in so many areas – ranging from mortgage finance in industrial countries to building bridges and roads in the developing world – as private capital markets develop, the role of the public sector increasingly shifts from providing finance to providing a framework for strong and sustainable private sector flows.

The IMF must reflect that change, with a focus on promoting financial stability within countries, a stable flow of capital between them, and rapid recoveries following any financial disruptions. Apart from the question of concessional finance for the poorest countries, an issue to which I will return, a reduced emphasis on the provision of finance is desirable. It is also inevitable. The IMF cannot expect its financial capacity to grow in parallel with the growth of private sector capital flows.

The best organizations are constantly reinventing themselves. The same should be true of international organizations. This is a matter of policies and procedures, but also and perhaps most crucially of culture and orientation. We believe that to maximize the IMF's effectiveness, consideration should be given to six critical areas:

- A greater focus on promoting the flow of information from governments to markets and investors.

- Attention to financial vulnerability as well as macro-economic fundamentals.

- A more selective financing role that is focused on emergency situations.

- Greater emphasis on catalyzing market-based solutions.

- A more limited role in the poorest countries focused on growth and poverty reduction.

- Modernization of the IMF as an institution.

We will be outlining these proposals in more detail to the members of the IMF going forward and working with them to build the consensus necessary to bring about real change.

I. Promoting the Flow of Information to Markets

In a more integrated global capital market, IMF surveillance needs to shift from a focus on collecting and sharing information within the club of nations -- to promoting the collection and dissemination of information for investors and markets.

If one were writing a history of the American capital market I would suggest to you that the single most important innovation shaping that capital market was the idea of generally accepted accounting principles. Countries all over the world need that kind of infrastructure, and the IMF needs to promote that goal in its dealings with member governments.

Notably:

- The IMF needs to encourage more countries to adopt and comply with the Special Data Dissemination Standard, including its new provisions relating to the reporting of reserves. We also need to add to the SDDS both strengthened standards for reporting external debt and indicators of financial sector soundness.

- It needs to: encourage countries to implement the many international standards and codes for sound policies that are being developed; assess, with the World Bank and others, countries' compliance with these benchmarks going forward; and release these assessments publicly.

- It needs to pay more attention, not just to the quantity of information disclosed to markets, but also to its quality. In the context of countries receiving IMF finance we believe it is appropriate that independent external audits of central banks and other relevant government entities be required and published. This should be something that private capital markets come to expect – and look to the IMF to promote in other contexts.

More generally, we are learning that transparency and the closely related issues of governance and corruption are fundamental to maintaining financial stability – indeed, they may be as important as the details of the budget. Substantial deficiencies in the accuracy and quantity of data that a country discloses should be noted in the course of IMF surveillance, and highlighted in the way that more conventional macro-economic deficiencies are highlighted. It should no longer be tenable for countries to block the release by the IMF of key data that would help investors make better-informed decisions.

II. Not Just Macro-economic Fundamentals but Financial Vulnerability

Just as the goal of IMF surveillance needs to change, so too must its content. Every crisis teaches lessons of emphasis. Refining our understanding of what makes countries vulnerable to modern-style crises and helping countries to guard against those risks will be a central focus for the G20 as it carries forward its work. And here too, the IMF can play a critical role.

The series of crises that began with Thailand in the summer of 1997 - and the Mexican crisis of 1995 - each had a variety of elements. But looking back we can now see that central to all of them was a sudden loss of confidence and large-scale withdrawal of capital by domestic and foreign investors, initially out of a concern about the fundamentals, but increasingly out of a concern not to be the last out. A kind of bank run psychology took hold, and the opportunity to fix the problems that had triggered the crisis, without up-ending the economy, drained away.

In the wake of these events, the IMF needs to focus its attention on countries' vulnerability to this kind of dynamic. It should no longer be possible to joke, as I have done in the past, that IMF stands for It's Mostly Fiscal.

Two changes in IMF practices will be essential.

A greater focus on the strength of national balance sheets

While it has become fashionable to blame capital account crises on a voracious global capital market, a large part of the problem in these crises came from governments' own efforts to attract short-term inflows that could not reasonably be sustained. We saw this, for example, in Mexico, with the increasing resort to issuing dollar-indexed *Tesobonos* in the lead-up to crisis; we saw it in Thailand in tax breaks for offshore foreign borrowing; and we saw it in Russia, in the government's efforts to attract foreign capital to the domestic bond market.

In light of these experiences, the IMF should actively promote a more fully integrated assessment of a country's liquidity and balance sheet. Governments need to think long and hard about their approach to financial liberalization – and, in particular, the dangers of opening up to short-term capital in the presence of too many domestic guarantees. And they need to manage the government's own debt in a way that best insures them against future risks. The most sophisticated debt managers are not those who achieve the lowest possible cost of borrowing.

What you count, counts. We believe that the IMF should work with member countries, including through the G20, to develop and publish a set of explicit quantitative indicators that provide more meaningful guides to the adequacy of country's reserves than simply their size relative to imports. For example: the maturity of the sovereign's debt and any worrisome deterioration in it; the scale of foreign currency related claims on the official sector; and the scale, maturity and composition of aggregate external claims on the financial and corporate sectors.

Highlighting more clearly the risks of unsustainable exchange rate regimes

These crises have reaffirmed the impossibility of maintaining both a fixed exchange rate and substantial discretion in domestic monetary policy. The IMF must increasingly bring to the fore in its discussions with countries the implications of this fact when it comes to the choice of an exchange rate regime.

Countries maintaining a fixed exchange rate should be expected to make explicit the extent to which monetary policy is to be subordinated to the exchange rate objective. And those using fixed exchange rates as a tool of disinflation should be expected to disclose the nature of their exit strategy. The presumption needs to be that countries that are involved with the world capital market should increasingly avoid the "middle ground" of pegged exchange rates with discretionary monetary policies, in favor of either more firmly institutionalized fixed rate regimes or floating.

III. Focusing Finance on Emergency Situations

International financial institutions, no less than private companies, need to focus on core competencies. Going forward the IMF needs to be more limited in its financial involvement with countries, lending selectively and on short maturities. It can and must be in the front line of the international response to financial crises. It should not be a source of low-cost financing for countries with ready access to private capital, or long-term welfare for countries that cannot break the habit of bad policies.

This suggests a number of core imperatives:

A more selective financial role

The IMF must be a last, not a first, resort – and its facilities and approaches should increasingly reflect that. We believe that the IMF's shareholders and management need to review carefully and comprehensively the myriad lending facilities that have been established over time. That review should be guided by the principles that official finance should be a backstop, not an alternative, to private sector finance.

In our view, a necessary result of this kind of streamlining would be that longer-term lending would be phased out as a normal part of IMF operations and that the IMF would come to rely on three core instruments for the bulk of its lending. These would be:

- The new Contingent Credit Line, to help countries ward off external contagion.
- Short-term stand-by arrangements for countries with non-systemic balance of payments problems.
- The Supplementary Reserve Facility (SRF), for countries suffering systemic capital account crises, to be lent on a very short-term basis at prices to encourage rapid repayment.

The question of the pricing of these facilities needs careful consideration. The agreement on premium finance for the SRF in 1997 was an historic step. Going forward it would be appropriate to introduce significantly higher charges for normal standby loans to deter excessive recourse to the core IMF financing arrangements. We also believe that it makes sense to consider making the terms of the CCL more attractive than those of the SRF – so as to motivate countries to invest earlier in policy changes that will better protect them from contagion.

As we said many times in 1998, when the world faces a truly exceptional systemic threat, it is vital that the IMF continue to be in a position to provide very large scale financing to respond to that threat. But the overwhelming presumption must be that, in all but a fraction of cases, normal access limits will apply.

Effective conditionality

When crises come, there can be no hard and fast rules for an effective response. The sources of crises vary, and so must the solutions. But it bears emphasis that those who have carried out consistently their programs with the IMF – Mexico, Thailand, Korea, and more recently, Brazil – have all seen very strong results. By contrast, the more dramatic failures of this period have followed countries' unwillingness to follow through on commitments in their programs – as in Russia in 1998 and Indonesia the previous year.

In the wake of recent crises there has been and will doubtless continue to be great debate about the appropriate scope for IMF policy conditions. The basic principle is clear: programs must be focused on the necessary and sufficient conditions for restoring stability and growth. Intrusion in areas that are not related to that goal carries costs that exceed the benefits, and may undermine the legitimacy of the IMF's advice. But the stability of banking systems, issues of social cohesion and inclusion, and the capacity to enforce contractual arrangements – these will all, in many cases, be critical to restoring confidence, and they can and should be addressed as a condition for IMF support.

In thinking about conditionality, we should never forget that financial stability is only a means to the ultimate objective of restoring growth. Austerity can never be an objective for its own sake. But avoiding hyperinflation and maintaining confidence in a country's currency are essential to restoring growth. The IMF staff is to be commended for altering initial judgments about the need for contractionary fiscal policy in Asia as the depth of the recession became more evident.

We can never guarantee that the right balance will be struck in every case. But let us be clear: the success of a government in implementing its program with the IMF will and must be judged by the restoration of sustainable growth.

A clear path toward graduation

There is no economy too prosperous to benefit from the analysis and insights afforded by regular consultations with the IMF. But the IMF should not and need not be financially involved in countries forever. In 1976 people were not surprised when the UK turned to the IMF. Today it is inconceivable. The IMF's goal now must be to mark a path for the graduation of the emerging market economies, so that they too will reach the point when calling on the IMF for financial support is unthinkable.

Achieving this will involve a number of reforms. A reduced willingness on the part of the IMF to offer long-term finance is one. Higher pricing to deter prolonged use would be another. Going forward the IMF should also be insisting on stronger prior actions in countries with a record of missing targets and not completing programs – and considering other ways that repeated resort to the IMF might be discouraged.

IV. Supporting the Right Kind of Private Sector Involvement

In a world of private capital flows the IMF has not, cannot and should not aspire to having financial capacity that is proportionate to those flows. That goes to the need for rapid graduation of countries from IMF support. It goes to the need for constant vigilance about the scope for alternative private sources of finance. And in times of crises – it points up an important role for the IMF as a facilitator of more market-based solutions.

In order to play this role more effectively we believe that the IMF should establish a Market Conditions Advisory Group to help it have a deeper knowledge of the private sector systematic access to market trends and views. In the context of individual crises, the official sector should also stand ready to facilitate coordination among debtors and creditors, including through creditor committees, where these are appropriate.

We all need to recognize that a capital market depends on the idea that debtors must meet their obligations if they can, but that there will be times when debtors cannot meet their obligations. A global capital market in which dozens of issuers are issuing at spreads of hundreds of basis point can only function if there is the capacity for managing situations where debts cannot be serviced in full and on time.

In its response to crises, several basic presumptions should now be guiding the IMF's approach with respect to the private sector.

- IMF lending should be a bridge to and from private sector lending not a long-term substitute.

- Official lending along with policy changes can be constructive in helping to restore confidence in situations where a country does have the capacity to repay.

- Where possible, the official sector through its conditionality should support approaches – as in Korea and, more recently, Brazil – that enable creditors to recognize their collective interest in maintaining positions, despite their individual interest in withdrawing funds. Such agreements should have the maximum feasible degree of voluntarism, but they should not fill short-term financing gaps in a way that promises renewed problems down the road.

- As we have seen, for example in Pakistan and Ecuador, it will be necessary in some rare cases for countries to seek to change the profile and structure of their private sector debts.

- In exceptional cases, the IMF should be prepared to provide finance to countries that are in arrears to their private creditors: but only where the country has agreed to a credible adjustment program, is pursuing a cooperative and transparent approach with its creditors, and is focused on a realistic plan for addressing its external financing problems that will be viable over the medium and longer term.

We have become convinced that it is not appropriate for the official sector to mandate the terms of debt contracts between countries and their creditors. But lenders and borrowers alike must recognize that if they choose contractual arrangements that are costly and inefficient in the event of failures, the official sector will not be prepared to shoulder the consequences.

V. A New Focus on Growth and Poverty Reduction in the Poorest Countries

The focus of my remarks has so far have been directed at the IMF's work in emerging markets. Different issues are posed by the poorest countries, which cannot attract significant private capital, and can borrow from the official sector only on concessional terms.

Helping these nations has rightly been high on the global agenda in recent months in our efforts to translate debt relief for the Heavily Indebted Poor Countries into concrete reductions in poverty. As part of this effort, we have worked closely with the UK and others to establish a fundamentally new framework for the international community's efforts to combat poverty, one that gives the World Bank the lead and the IMF a more tightly focused role.

The premise for this new approach is that macro-economic stability may be necessary, but it is far from being sufficient to creating lasting and inclusive growth. The approach looks to the IMF to continue to certify that a country's macro-economic policies are satisfactory before debt is relieved or new concessional lending is advanced. But much of the dialogue between countries and the official sector will center on issues relating to poverty that have not traditionally received the attention they deserve.

As a result of recent agreements among the G7, I am confident that a number of countries – including Bolivia, Uganda, Mozambique and Mauritania – will be able to benefit from the Cologne initiative very early in the new year, with a number of others also benefiting before the Spring meetings of the World Bank and IMF in Washington. What will be critical will be effectively implementing the new framework for official support in these and other countries, so that the poorest will also see rapid results.

VI. Institutional Reform

Finally, if the work of the IMF is to change, its nature may need to change in the 21st century as well.

- It should move over time toward a governing structure that is more representative and a relative allocation of member quotas that reflects the changes under way in the world economy – so that each country's standing and voice is more consistent with their relative economic and financial strength.

- It should deepen the commitment to transparency that is built into the IMF's own operations, especially by making the IMF's own financial workings clearer and more comprehensible to the public. For example, there is no reason why there should not be regular publication of the IMF's operational budget.

- And it should become more attuned, not just to markets, but the broad range of interests and institutions with a stake in the IMF's work. Just as the institution need to be more permeable for information to flow out, so too must it be permeable enough to let in new thoughts - by maintaining a vigorous ongoing dialogue with civil society groups and others.

This seemed a propitious moment to focus on the IMF. But as our international discussions on these issues continue, it will be important for its shareholders to consider not just the role of the IMF, but the World Bank and other development institutions and also how these institutions relate to each other.

VII. Concluding Remarks

Let me re-emphasize the observation with which I began. As important as it is, the IMF is just one component of the international financial architecture. Indeed, if I have learned one thing in my seven years in government, it is that national policy shapes national outcomes. The international community cannot want reform and stability in a country more than its own government and people do.

But international institutions do matter, and so do the individuals who lead them. Michel Camdessus's imaginative leadership has made its mark in helping the IMF prepare itself for a 21st century global financial system. What is critical is that we maintain the spirit of change and adaptation in the months and years ahead. Thank you.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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Weekly Release of U.S. Reserve Assets

December 14, 1999

The Treasury Department today released U.S. reserve assets data for the week ending December 10, 1999.

As this table indicates, U.S. reserve assets totaled $72,458 million as of December 10, 1999, up from $72,105 million as of December 3, 1999.

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

1999 *Week Ending*	Total Reserve Assets	Gold Stock 1/	Special Drawing Rights 2/	Foreign Currencies 3/ ESF	Foreign Currencies 3/ SOMA	Reserve Position in IMF 2/
December 3, 1999	**72,105**	11,049	10,326	16,009	16,011	18,711
December 10, 1999	**72,458**	11,049	*10,371*	16,121	16,123	*18,793*

1/ Gold stock is valued monthly at $42.2222 per fine troy ounce. Values shown are as of October 31, 1999. The September 30, 1999 value was $11,047 million.

2/ SDR holdings and the reserve position in the IMF are based on IMF data and valued in dollar terms at the official SDR/dollar exchange rate. Consistent with current reporting practices, IMF data for December 3, 1999 are final. Data for SDR holdings and the reserve position in the IMF shown as of December 10, 1999 (in italics) reflect preliminary adjustments by the Treasury to the December 3, 1999 IMF data.

3/ Includes holdings of the Treasury's Exchange Stabilization Fund (ESF) and the Federal Reserve's System Open Market Account (SOMA). These holdings are valued at current market exchange rates or, where appropriate, at such other rates as may be agreed upon by the parties to the transactions.

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TEXT AS PREPARED FOR DELIVERY
FOR IMMEDIATE RELEASE
December 15, 1999

Contact: Lydia Sermons
(202) 622-2960

STATEMENT BY TREASURY DEPUTY SECRETARY STUART E. EIZENSTAT ON THE GERMAN FORCED AND SLAVE LABOR NEGOTIATIONS SETTLEMENT

We are nearing the end of negotiations over the last great compensation issue growing out of World War II -- the payment of forced and slave laborers employed by German private industry, SS companies and German public companies, and to other victims who suffered at the hands of German banks, insurance companies and other German companies during the Nazi era. As a result of the acceptance by Germany, as conveyed in today's letter from Chancellor Schroeder to President Clinton, of the ten billion DM ($5.2 billion) proposal by those representing the victims, we have taken a major step towards settling this issue in a just and dignified way.

Tens of thousands of Americans, Christian and Jewish alike, and over a million others living in Central and Eastern Europe, should now be able to receive benefits in their lifetimes in ways in which lengthy litigation could never have achieved.

We could not have achieved this result without the personal leadership of President Clinton, who wrote to Chancellor Schroeder on several occasions and raised the issue with him in a meeting in Florence several weeks ago. Nor would this have been possible without the direct involvement of White House Chief of Staff John Podesta, National Security Adviser Sandy Berger, Secretary of State Madelaine Albright and Treasury Secretary Lawrence Summers, with their respective colleagues. I also appreciate the support we received from many members of Congress, including Chairman Leach, Chairman Gilman, Senator Schumer, Senator Lieberman, Senator Torricelli and Congressman Lantos.

I would like to pay special tribute to the courageous leadership of Chancellor Schroeder and to the remarkable and creative efforts of my partner, Count Otto Lambsdorff. I would like to give special mention to the contribution of Israel Singer and Gideon Taylor and their colleagues with the Jewish Material Claims Conference, as well as to the creativity and flexibility demonstrated by the class action attorneys. German President Rau has been an important moral voice at critical times during this effort and deserves our admiration.

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There is still work to be done to implement this agreement. But the agreement on a ten billion DM settlement makes me hopeful that the rest of the issues will fall into place.

By her actions, Germany has set a standard for other countries to live up to their moral obligations. Germany has provided a lesson for all of us as we prepare to enter a new millennium.

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For Immediate Release
December 17, 1999

Contact: Maria Ibanez
(202) 622-2960

SECRETARY SUMMERS NAMES NEW ATF DIRECTOR

Treasury Secretary Lawrence H. Summers announced today the appointment of Bradley A. Buckles as Director of the Bureau of Alcohol, Tobacco and Firearms (ATF). Buckles will replace John W. Magaw who retires at the end of the year after serving six years as ATF Director and more than 39 years in law enforcement.

"Brad has devoted his entire professional life to the men and women of ATF and the invaluable services they provide to the American public," said Secretary Summers. "I have no doubt that Brad will bring the same professionalism, expertise and integrity to the position of Director that he has demonstrated throughout his long and productive tenure with the bureau."

Buckles began his career at ATF in 1974 holding various positions in the Office of the Chief Counsel, including Deputy Chief Counsel from 1983 to 1995 and then Chief Counsel from 1995 to 1996. Since 1996, he has served as ATF's Deputy Director where he has assisted in the day-to-day management of the bureau. At the same time he has served as the bureau's Chief Operating Officer, Chair of the Executive Resources Board and Chair of its Strategic Leadership Team.

At ATF, Buckles has played a key role in every major program development area and implementation effort in ATF's jurisdiction. He has also participated in management initiatives involving personnel, budget, strategic planning, technology, organizational restructuring and leadership development. Buckles has received numerous awards including the Meritorious Presidential Rank Award in 1992 and Distinguished Presidential Rank Award in 1997.

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FOR IMMEDIATE RELEASE
Text as Prepared for Delivery
December 17, 1999

STATEMENT BY TREASURY DEPUTY SECRETARY
STUART E. EIZENSTAT
PLENARY SESSION
SLAVE AND FORCED LABOR NEGOTIATIONS
BERLIN, GERMANY

I am very pleased that German enterprises and the government of the Federal Republic have agreed to raise their combined contribution to the Fund for Remembrance Reconciliation and the Future to DM 10 billion. The Governments of Belarus, the Czech Republic, Poland, Russia, Ukraine and the State of Israel, the Conference on Jewish Material Claims Against Germany, and the assembled lawyers for the victims have accepted DM 10 billion as the capped amount for the Foundation and the sum that will resolve the lawsuits in U.S. courts.

This has been a long and complicated negotiation in which all the participants have showed flexibility. I want to express my deep gratitude and that of President Clinton to Chancellor Schroeder, who showed great leadership, courage and statesmanship in placing the resources of his government so generously behind this effort at a time of budget constraint in Germany. I want to thank Doctor Manfred Gentz and other Germany company representatives for their vision in establishing the German Initiative and for their contributions toward success.

I also want to cite the support we have received in this process from President Clinton and his most senior advisors, Secretary Albright, Secretary Summers, White House Chief of Staff John Podesta, and National Security Adviser Sandy Berger - and especially our team from the Departments of State, Treasury, and Justice for their tireless, selfless, and dedicated work - they are David Anderson, Ron Bettauer, J.D. Bindenagel, David Bucholz, Milt Gwirtzman, Jody Manning, Holly Moore, Eric Rosand, Basil Scarlis, Mark Scheland, Richard Smith, and James Warlick.

A special recognition is overdue to our distinguished Ambassador John Kornblum, who has been engaged with this German initiative from the start and has given sage advice to both sides.

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It is a tribute to the United States and to President Clinton that so many resources of the United States Government have been devoted to this effort. This was done because of the profound moral issues involved in making dignified payments to so many elderly people who suffered so grievously a half century ago, and because of the great importance we attach to positive relations with one of our closest friends and allies - the Federal Republic of Germany.

If there is one man to whom I owe the greatest debt, it is my partner in these negotiations, Count Otto Lambsdorf. His patience, persistence, negotiating skill, love of his country, and his profound understanding of the importance of a positive relationship between our two great countries, were absolutely essential elements in the outcome we have achieved. We have been joined at the hip for many months. I have known him for over twenty years, but my already high esteem for him is now limitless.

His Chief of Staff Michael Geier has been consistently constructive.

One consistently sound and reasonable voice has been heard from Israel Singer, Gideon Taylor and the Holocaust survivors who are part of the Jewish Claims Conference. They constantly kept everyone's eye focused on the moral dimension of our efforts.

The governments of Belarus, the Czech Republic, Poland, Russia, Ukraine, and Israel participated knowledgeably and fully in these talks on behalf of their citizens, who constitute the majority of the survivors. They will have a key role in the final allocation and distribution of funds.

We would not be at this point without the involvement of the lawyers for the victims. They have had to make hard decisions but were able to come to a united decision in the end, always keeping in mind the interests of the elderly victims. They also played a significant role in helping us craft creative solutions to the issue of legal closure.

Let me cite some key aspects of our agreement.

We have for the first time agreed on a capped amount - a ceiling - to resolve the lawsuits against German companies and to make dignified payments to former public and private sector Nazi-era slave and forced laborers and all those who suffered at the hands of German companies during this period. From this, other decisions should be easier.

We can now say, at long last, that we have reached agreement on legal closure. In the context of a comprehensive German Foundation, in all cases, consensual and nonconsensual, brought against German companies for claims arising out of the Nazi-era, we are prepared to say that the German Foundation should be regarded as the exclusive remedy and that dismissal of such cases would be in our foreign policy interests.

This commitment will be memorialized in an Executive Agreement between the two governments and in a Statement of Interest, which the United States Government will file in all the above cases in U.S. courts. We have also agreed to take all appropriate steps to oppose state and local actions against German companies arising out of the Nazi-era claims in the United States that threaten to undermine the legal peace we seek.

I am also pleased to announce that following my request to Count Lambsdorff, he has informed me that many of the German companies in the German Initiative have agreed to open their archives from the Nazi-era to legitimate historical research. Some have done so already. We encourage the broadest participation of German companies in this effort at openness. Such a gesture will ensure that money alone will not be the last memory of the matters in which we are now engaged, and will underscore the moral aspect of our efforts.

German President Rau has been a consistent voice stressing the moral aspects of the treatment of slave and forced laborers at the hands of German companies and the Nazi regime. We expect our meeting later today with President Rau to further dramatize the moral responsibility of the German companies and Government during the Nazi-era.

In addition, as a result of negotiations yesterday, all participants have agreed to use interest earned on contributions to the Foundation for the furtherance of the purposes of the Foundation.

As a gesture to demonstrate our own commitment to this process, the United State Government is prepared to consider contributing 10 million dollars, or nearly 20 million D-Marks, from the amount appropriated for the Nazi Persecutee Relief Fund, to the Foundation's Future Fund. The Future Fund will encourage educational projects on the issues of the Holocaust and World War II and on tolerance, but it will also provide social benefits to heirs of slave and forced laborers. This will be over and above the 10 billion DM amount which German companies and the German Government will contribute to the Foundation.

This agreement is the keystone in the arch of this long and difficult negotiation. We shall now proceed to conclude the matters necessary to implement the overall agreement so that payments can begin to be made as soon as possible. These include reaching agreement on the allocation of the 10 billion DM among the various categories under the German Foundation, and the relationship of insurance matters between the Foundation and the International Commission on Holocaust Era Insurance Claims, chaired by former Secretary of State Larry Eagleburger.

But what is critical is that all participants are committed to a successful outcome at the earliest possible date.

I want to say to the survivors present here today, to those in the United States, and to those around the world, that your sacrifices were constantly on our minds as we went about our work. While no amount of money can compensate for your suffering, you shall receive dignified payments.

We will act to resolve all of the outstanding issues as expeditiously as possible. But it is important not to raise unrealistic expectations on the timing of payments. It will take some time to implement the details of our agreement, to have the lawsuits dismissed, to have the German Bundestag enact the necessary legislation, to have the German economy raise their share of the 10 billion DM, to provide notice to the potential recipients, and to file, process, and pay claims. Consequently, it may take up to a year before dignified payments can be made, although we will do all we can to shorten this time-period.

The German people have many times and in many ways shown their acceptance of responsibility for the evils inflicted on the world by the Third Reich. The German Government has already provided some 60 billion DM to Holocaust victims. They have proven time and again that modern Germany is a strong, free and democratic nation, which respects human rights and the dignity of the individual. It is fitting that you have brought your capital back to Berlin, the city that in recent times has stood as a world-wide symbol of freedom during the Cold War. And it will be fitting for you to enter the 21st century as a united country having made this important moral gesture at the end of the century.

Even more broadly, Germany is setting an example of how nations can come to terms with their moral responsibility and become stronger in the process. In so doing, you have taught the world an important lesson as we enter a new century and a new millenium.

This agreement also will help strengthen an already strong relationship and take the U.S.-German partnership to even higher levels. This agreement will be remembered as an important part of our common history. I believe that it also will contribute to a strengthening of relations between Germany and its Central and Eastern European neighbors and with the State of Israel.

Finally, at this holiday season, I wish to express the hope that while the suffering for which we are seeking to recognize was born of war and of man's inhumanity to mankind, what we have done here today will be seen as a meaningful step toward "peace on earth, good will toward all men."

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DEPARTMENT OF THE TREASURY

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EMBARGOED UNTIL 2:30 P.M.
December 17, 1999

Contact: Office of Financing
202/691-3550

TREASURY TO AUCTION CASH MANAGEMENT BILLS

The Treasury will auction approximately $10,000 million of 23-day Treasury cash management bills to be issued December 21, 1999.

Competitive and noncompetitive tenders for bills to be issued in the Treasury/Reserve Automated Debt Entry System (TRADES) will be received through the Federal Reserve System. Tenders will not be accepted for bills to be maintained on the book-entry records of the Department of the Treasury (*TreasuryDirect*). 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 highest discount rate of accepted competitive tenders.

The auction being announced today will be conducted in the single-price auction format. All competitive and noncompetitive awards will be at the highest discount rate of accepted competitive tenders.

This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular for the Sale and Issue of Marketable Book-Entry Treasury Bills, Notes, and Bonds (31 CFR Part 356, as amended).

NOTE: 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

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HIGHLIGHTS OF TREASURY OFFERING
OF 23-DAY CASH MANAGEMENT BILL

December 17, 1999

Offering Amount..................... $10,000 million

Description of Offering:
Term and type of security........... 23-day Cash Management Bill
CUSIP number........................ 912795 DC 2
Auction date........................ December 20, 1999
Issue date.......................... December 21, 1999
Maturity date....................... January 13, 2000
Original issue date................. July 15, 1999
Currently outstanding............... $54,334 million
Minimum bid amount and multiples.... $1,000

Submission of Bids:
Noncompetitive bids......... Accepted in full up to $1,000,000 at the highest accepted discount rate.
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.

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

Maximum Award................. 35% of public offering

Receipt of Tenders:
Noncompetitive tenders...... Prior to 11:00 a.m. Eastern Standard time on auction day
Competitive tenders......... Prior to 11:30 a.m. Eastern Standard time on auction day

Payment Terms................. By charge to a funds account at a Federal Reserve Bank on issue date, or payment of full par amount with tender.

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FOR IMMEDIATE RELEASE
December 17, 1999

STATEMENT BY TREASURY SECRETARY LAWRENCE H. SUMMERS

The tax legislation that President Clinton signed into law today, the Tax Relief Extension Act of 1999, is a significant step forward for the American economy and for American families. A highlight of this legislation is the longest extension of the R&E credit in many years. This five-year extension will, for the first time in this decade, enable businesses to plan securely, on a long-term basis, their research and experimentation priorities. Our economy has enjoyed substantial increases in productivity growth in recent years and much of the reason why is that technology in turn derives from research and experimentation.

The legislation also protects middle-income taxpayers from having their personal tax credits, such as the HOPE scholarship credit, limited by the alternative minimum tax.

Other important provisions, extended through to the end of 2001, include specific tax measures designed to:

- improve school facilities in under-served communities;
- encourage employers to pay for workers continuing education;
- help disadvantaged workers and those on welfare to find jobs;
- provide economic relief and opportunity in Puerto Rico;
- encourage businesses in certain areas to cleanup brownfields;
- aid first-time homebuyers in the District of Columbia; and,
- stimulate low and no emission production of power through wind and biomass energy.

This legislation is a good example of what can be accomplished when we work together. It does what we need to do to maintain the benefits in our tax system and does so in a way that is fiscally responsible.

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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

OR IMMEDIATE RELEASE
ecember 20, 1999

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 23-DAY BILLS

Term:	23-Day Bill
Issue Date:	December 21, 1999
Maturity Date:	January 13, 2000
CUSIP Number:	912795DC2

High Rate: 5.44 % Investment Rate 1/: 5.56 % Price: 99.652

All noncompetitive and successful competitive bidders were awarded ecurities at the high rate. Tenders at the high discount rate were llotted 67%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 27,895,000	$ 10,003,000
Noncompetitive	1,000	1,000
TOTAL	$ 27,896,000	$ 10,004,000

Median rate 5.40 %: 50% of the amount of accepted competitive tenders s tendered at or below that rate. Low rate 5.35 %: 5% of the amount accepted competitive tenders was tendered at or below that rate.

d-to-Cover Ratio = 27,896,000 / 10,004,000 = 2.79

Equivalent coupon-issue yield.

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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
December 20, 1999

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Term:	91-Day Bill
Issue Date:	December 23, 1999
Maturity Date:	March 23, 2000
CUSIP Number:	912795DN8

High Rate: 5.400% Investment Rate 1/: 5.566% Price: 98.635

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 31%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 21,279,684	$ 7,456,034
Noncompetitive	1,324,591	1,324,591
PUBLIC SUBTOTAL	22,604,275	8,780,625 2/
Foreign Official Refunded	234,400	234,400
SUBTOTAL	22,838,675	9,015,025
Federal Reserve	3,574,235	3,574,235
Foreign Official Add-On	0	0
TOTAL	$ 26,412,910	$ 12,589,260

Median rate 5.370%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 5.330%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 22,604,275 / 8,780,625 = 2.57

1/ Equivalent coupon-issue yield.
2/ Awards to TREASURY DIRECT = $1,064,981,000

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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
December 20, 1999

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Term:	182-Day Bill
Issue Date:	December 23, 1999
Maturity Date:	June 22, 2000
CUSIP Number:	912795EB3

High Rate: 5.600% Investment Rate 1/: 5.859% Price: 97.169

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 22%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 20,582,883	$ 5,199,983
Noncompetitive	1,052,577	1,052,577
PUBLIC SUBTOTAL	21,635,460	6,252,560 2/
Foreign Official Refunded	1,750,000	1,750,000
SUBTOTAL	23,385,460	8,002,560
Federal Reserve	3,165,000	3,165,000
Foreign Official Add-On	0	0
TOTAL	$ 26,550,460	$ 11,167,560

Median rate 5.570%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 5.520%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 21,635,460 / 6,252,560 = 3.46

1/ Equivalent coupon-issue yield.
2/ Awards to TREASURY DIRECT = $762,518,000

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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
December 21, 1999

TREASURY EXPANDS WEEKLY REPORTING OF U.S. RESERVE ASSETS

The Treasury Department today expanded its weekly reporting of the United States Official Reserve Assets, consistent with the enhanced requirements for reporting reserves that will go into effect on April 1, 2000, under the IMF's Special Data Dissemination Standard (SDDS). The SDDS was established in 1996 to promote increased transparency by providing guidance on the dissemination of economic and financial data for countries that have, or that might seek, access to international capital markets. The United States is a subscriber to and complies with the SDDS.

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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

U.S. International Reserve Position

The Treasury Department today released U.S. reserve assets data for the week ending December 17, 1999.

As indicated in this table, U.S. reserve assets totaled $72,195 million as of December 17, 1999, down from $72,516 million as of December 10, 1999.

(in US millions)

I. Official U.S. Reserve Assets	December 10, 1999			December 17, 1999		
TOTAL			72,516			72,195
1. Foreign Currency Reserves [1]	Euro	Yen	TOTAL	Euro	Yen	TOTAL
a. Securities	5,135	6,268	11,403	5,079	6,214	11,294
Of which, issuer headquartered in the U.S.			0			0
b. Total deposits with:						
b.i. Other central banks and BIS	8,753	12,132	20,885	8,696	12,030	20,726
b.ii. Banks headquartered in the U.S.			0			0
b.ii. Of which, banks located abroad			0			0
b.iii. Banks headquartered outside the U.S.			0			0
b.iii. Of which, banks located in the U.S.			0			0
2. IMF Reserve Position [2]			18,808			*18 774*
3. Special Drawing Rights (SDRs) [2]			10,371			*10 353*
4. Gold Stock [3]			11,049			11,049
5. Other Reserve Assets			0			0

1/ Includes holdings of the Treasury's Exchange Stabilization Fund (ESF) and the Federal Reserve's System Open Market Account (SOMA), valued at current market exchange rates Foreign currency holdings listed as securities reflect marked-to-market values, and deposits reflect carrying values

2/ SDR holdings and the reserve position in the IMF are based on IMF data and revalued in dollar terms at the official SDR/dollar exchange rate. Consistent with current reporting practices, IMF data for December 10, 1999 are final. Data for SDR holdings and the reserve position in the IMF shown as of December 17, 1999 (in italics) reflect preliminary adjustments by the Treasury to the December 10, 1999 IMF data

3/ Gold stock is valued monthly at $42.2222 per fine troy ounce. Values shown are as of October 31, 1999 The September 30, 1999 value was $11,047 million

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U.S. International Reserve Position (cont'd)

II. Predetermined Short-Term Drains on Foreign Currency Assets	December 10, 1999	December 17, 1999
1. Foreign currency loans and securities	0	0
2. Aggregate short and long positions in forwards and futures in foreign currencies vis-à-vis the U.S. dollar:		
2.a. Short positions	0	0
2.b. Long positions	0	0
3. Other	0	0

III. Contingent Short-Term Net Drains on Foreign Currency Assets	December 10, 1999	December 17, 1999
1. Contingent liabilities in foreign currency	0	0
1.a. Collateral guarantees on debt due within 1 year		
1.b. Other contingent liabilities		
2. Foreign currency securities with embedded options	0	0
3. Undrawn, unconditional credit lines	0	0
3.a. With other central banks		
3.b. With banks and other financial institutions headquartered in the U.S.		
3.c. With banks and other financial institutions headquartered outside the U.S.		
4. Aggregate short and long positions of options in foreign currencies vis-à-vis the U.S. dollar	0	0
4.a. Short positions		
4.a.1. Bought puts		
4.a.2. Written calls		
4.b. Long positions		
4.b.1. Bought calls		
4.b.2. Written puts		

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
December 23, 1999

Contact: Maria Ibanez
(202) 622-2960
Jeffrey Roehm
(202) 927-8500

ATF TO TEST NEW PAY AND PERFORMANCE MANAGEMENT SYSTEM

Treasury Under Secretary for Enforcement James E. Johnson today announced that the Bureau of Alcohol, Tobacco and Firearms (ATF) will launch a pilot pay and performance management system known as the Treasury Demonstration Project for Designated Critical Positions.

Congress granted the Secretary of the Treasury a 3-year authority to launch this system to fill 950 scientific, technical, engineering, intelligence analyst, language translator, and medical positions in the ATF, the U.S. Customs Service and the U. S. Secret Service. The project will address the requirements in the existing system of pay and performance management established by Title 5, United States Code.

"We are committed to ensuring that our workforce is of the highest caliber," said Johnson. "The Demonstration Project will allow us to recruit, develop and retain the best and brightest -- even in a very competitive job market."

The covered ATF positions play an essential role in Treasury's law enforcement and national security missions which include reducing the trafficking, smuggling, and illicit use of firearms and tobacco, drugs, alcohol and explosives; combating arson; fighting violent crime and combating terrorism.

Treasury will implement the project on or around January 1, 2000. ATF will have the capability to hire personnel into covered positions at a salary greater than what could be offered under the General Schedule Pay System; to grant pay increases for performance; to financially reward employees for obtaining job-related certificates, licenses, and diplomas; to provide expanded retention, relocation, and recruitment bonuses; and to provide greater opportunities for high performers.

ATF Director Bradley Buckles stated, "The Demonstration Project is driven by the desire to make the Government more competitive with the private sector in fairly rewarding its personnel. We are confident that these new flexibilities will be seen as a major benefit to our employees."

*U S Government Printing Office 1998 - 619-559

This project was authorized by the Omnibus Consolidated and Emergency Supplemental Appropriations Act for Fiscal Year 1999, P.L. 105-277, 122 Stat. 2681, amending section 122 P.L. 105-119) of the Fiscal Year 1998 Commerce, Justice, State and Judiciary Appropriations Act. While this authority ends on October 19, 2001, the Department expects to seek a three-year Congressional extension.

Additional information on the Demonstration Project soon will be available on ATF's website at: *www.atf.treas.gov*.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

EMBARGOED UNTIL 2:30 P.M.
December 22, 1999

CONTACT: Office of Financing
202/691-3550

TREASURY OFFERS 13-WEEK AND 26-WEEK BILLS

The Treasury will auction two series of Treasury bills totaling approximately $17,000 million to refund $15,494 million of publicly held securities maturing December 30, 1999, and to raise about $1,506 million of new cash.

In addition to the public holdings, Federal Reserve Banks for their own accounts hold $7,432 million of the maturing bills, which may be refunded at the highest discount rate of accepted competitive tenders. Amounts issued to these accounts will be in addition to the offering amount.

The maturing bills held by the public include $3,975 million held by Federal Reserve Banks 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 highest 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.

TreasuryDirect customers requested that we reinvest their maturing holdings of approximately $841 million into the 13-week bill and $713 million into the 26-week bill.

This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular for the Sale and Issue of Marketable Book-Entry Treasury Bills, Notes, and Bonds (31 CFR Part 356, as amended).

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

oOo

Attachment

LS-307

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

FOR PLANNING PURPOSES ONLY
December 27, 1999

Contact: Lydia Sermons
(202) 622-2960

TREASURY DEPARTMENT Y2K OPERATIONAL PLANNING

The Treasury Department will operate an Emergency Information Coordination Center (EICC) during the millennium transition period. The purpose of the EICC will be to ensure the efficient flow of accurate information about the status and condition of core business processes and systems for the Treasury and Treasury bureaus.

The EICC will be operational 24 hours a day from December 31, 1999 through January 3, 2000 and for 12-hour shifts from 7 a.m. to 7 p.m., January 4 through January 7. Treasury bureaus will provide reports on a scheduled basis to the EICC. The EICC will then report consolidated Treasury status to Treasury executives and to Treasury staff working at the President's Council on Year 2000 Information Coordination Center (ICC) on a regular basis.

The ICC will be the Federal government's central point for gathering, analyzing and summarizing Y2K related information during the year 2000 transition. Regular press briefings, announcements and responses to media inquiries will be coordinated through the Joint Public Information Center (JPIC) at the ICC, located at 1800 G Street, NW, 10th floor.

Treasury Public Affairs staff will be available at JPIC at (202) 535-0037 and through the Treasury operator at (202) 622-1260 around the clock to address Treasury Y2K related questions during the transition. A staff schedule and contact numbers are attached for your information.

Treasury press announcements will be made during regularly scheduled JPIC briefings with John Koskinen. Briefings with Treasury officials will be scheduled as needed. Press will be notified through JPIC in advance of any scheduled Treasury briefings. For information on credentials and access to JPIC, contact Helen Chapman at JPIC at (202) 456-7010.

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Treasury Public Affairs Staff

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JPIC general press number: (202) 456-7010

Main Treasury Public Affairs: (202) 622-2960

Main Treasury Operator: (202) 622-1260

Treasury Text Paging Number: 1-888-562-1292

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
December 27, 1999

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Term:	91-Day Bill
Issue Date:	December 30, 1999
Maturity Date:	March 30, 2000
CUSIP Number:	912795DP3

High Rate: 5.300% Investment Rate 1/: 5.463% Price: 98.660

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 61%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 25,382,408	$ 7,444,508
Noncompetitive	1,258,114	1,258,114
PUBLIC SUBTOTAL	26,640,522	8,702,622 2/
Foreign Official Refunded	303,700	303,700
SUBTOTAL	26,944,222	9,006,322
Federal Reserve	3,762,430	3,762,430
Foreign Official Add-On	0	0
TOTAL	$ 30,706,652	$ 12,768,752

Median rate 5.275%: 50% of the amount of accepted competitive tenders as tendered at or below that rate. Low rate 5.240%: 5% of the amount f accepted competitive tenders was tendered at or below that rate.

id-to-Cover Ratio = 26,640,522 / 8,702,622 = 3.06

/ Equivalent coupon-issue yield.
/ Awards to TREASURY DIRECT = $977,822,000

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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

?OR IMMEDIATE RELEASE
)ecember 27, 1999

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Term:	182-Day Bill
Issue Date:	December 30, 1999
Maturity Date:	June 29, 2000
CUSIP Number:	912795EC1

High Rate: 5.505% Investment Rate 1/: 5.757% Price: 97.217

All noncompetitive and successful competitive bidders were awarded :ecurities at the high rate. Tenders at the high discount rate were .llotted 94%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 18,575,305	$ 5,484,305
Noncompetitive	995,756	995,756
PUBLIC SUBTOTAL	19,571,061	6,480,061 2/
Foreign Official Refunded	1,522,200	1,522,200
SUBTOTAL	21,093,261	8,002,261
Federal Reserve	3,670,000	3,670,000
Foreign Official Add-On	0	0
TOTAL	$ 24,763,261	$ 11,672,261

Median rate 5.480%: 50% of the amount of accepted competitive tenders as tendered at or below that rate. Low rate 5.400%: 5% of the amount f accepted competitive tenders was tendered at or below that rate.

id-to-Cover Ratio = 19,571,061 / 6,480,061 = 3.02

/ Equivalent coupon-issue yield.
/ Awards to TREASURY DIRECT = $773,832,000

LS-310

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

U.S. International Reserve Position

The Treasury Department today released U.S. reserve assets data for the week ending December 24, 1999.

As indicated in this table, U.S. reserve assets totaled $71,982 million as of December 24, 1999, up from $71,841 million as of December 17, 1999.

(in US millions)

I. Official U.S. Reserve Assets	December 17, 1999			December 24, 1999		
TOTAL		71,841			71,982	
1. Foreign Currency Reserves [1]	Euro	Yen	TOTAL	Euro	Yen	TOTAL
a. Securities	5,079	6,214	11,294	5,104	6,232	11,336
Of which, issuer headquartered in the U.S.			0			0
b. Total deposits with:						
b.i. Other central banks and BIS	8,696	12,030	20,726	8,736	12,068	20,803
b.ii. Banks headquartered in the U.S.			0			0
b.ii. Of which, banks located abroad			0			0
b.iii. Banks headquartered outside the U.S.			0			0
b.iii. Of which, banks located in the U.S.			0			0
2. IMF Reserve Position [2]			18,419			*18,433*
3. Special Drawing Rights (SDRs) [2]			10,353			*10,360*
4. Gold Stock [3]			11,049			11,049
5. Other Reserve Assets			0			0

1/ Includes holdings of the Treasury's Exchange Stabilization Fund (ESF) and the Federal Reserve's System Open Market Account (SOMA), valued at current market exchange rates. Foreign currency holdings listed as securities reflect marked-to-market values, and deposits reflect carrying values.

2/ SDR holdings and the reserve position in the IMF are based on IMF data and revalued in dollar terms at the official SDR/dollar exchange rate. Consistent with current reporting practices, IMF data for December 17, 1999 are final. Data for SDR holdings and the reserve position in the IMF shown as of December 24, 1999 (in italics) reflect preliminary adjustments by the Treasury to the December 17, 1999 IMF data.

3/ Gold stock is valued monthly at $42.2222 per fine troy ounce. Values shown are as of October 31, 1999. The September 30, 1999 value was $11,047 million.

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U.S. International Reserve Position (cont'd)

II. Predetermined Short-Term Drains on Foreign Currency Assets	December 17, 1999	December 24, 1999
1. Foreign currency loans and securities	0	0
2. Aggregate short and long positions in forwards and futures in foreign currencies vis-à-vis the U.S. dollar:		
2.a. Short positions	0	0
2.b. Long positions	0	0
3. Other	0	0

III. Contingent Short-Term Net Drains on Foreign Currency Assets	December 17, 1999	December 24, 1999
1. Contingent liabilities in foreign currency	0	0
1.a. Collateral guarantees on debt due within 1 year		
1.b. Other contingent liabilities		
2. Foreign currency securities with embedded options	0	0
3. Undrawn, unconditional credit lines	0	0
3.a. With other central banks		
3.b. With banks and other financial institutions headquartered in the U.S.		
3.c. With banks and other financial institutions headquartered outside the U.S.		
4. Aggregate short and long positions of options in foreign currencies vis-à-vis the U.S. dollar	0	0
4.a. Short positions		
4.a.1. Bought puts		
4.a.2. Written calls		
4.b. Long positions		
4.b.1. Bought calls		
4.b.2. Written puts		

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.
December 30, 1999

CONTACT: Office of Financing
202/691-3550

TREASURY OFFERS 13-WEEK, 26-WEEK, AND 52-WEEK BILLS

The Treasury will auction three series of Treasury bills totaling approximately $25,000 million to refund $27,545 million of publicly held securities maturing January 6, 2000, and to pay down about $2,545 million.

In addition to the public holdings, Federal Reserve Banks for their own accounts hold $12,924 million of the maturing bills, which may be refunded at the highest discount rate of accepted competitive tenders. Amounts issued to these accounts will be in addition to the offering amount.

The maturing bills held by the public include $4,258 million held by Federal Reserve Banks 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- and 26-week bills at the highest 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.

Of the $4,258 million maturing bills held by foreign and international monetary authorities, $1,753 million is considered to be held in the original 52-week issue; additional amounts may be issued in the 52-week bill auction for such accounts to the extent that the amount of new bids exceeds that amount.

TreasuryDirect customers requested that we reinvest their maturing holdings of approximately $918 million into the 13-week bill, $800 million into the 26-week bill, and $534 million into the 52-week bill.

This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular for the Sale and Issue of Marketable Book-Entry Treasury Bills, Notes, and Bonds (31 CFR Part 356, as amended).

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

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Attachment

HIGHLIGHTS OF TREASURY OFFERINGS OF BILLS
TO BE ISSUED JANUARY 6, 2000

December 30, 1999

Offering Amount	$8,000 million	$7,000 million	$10,000 million
Description of Offering:			
Term and type of security	91-day bill	182-day bill	364-day bill
CUSIP number	912795 DQ 1	912795 ER 8	912795 ES 6
Auction date	January 3, 2000	January 3, 2000	January 4, 2000
Issue date	January 6, 2000	January 6, 2000	January 6, 2000
Maturity date	April 6, 2000	July 6, 2000	January 4, 2001
Original issue date	October 7, 1999	January 6, 2000	January 6, 2000
Currently outstanding	$11,946 million	---	---
Minimum bid amount and multiples	$1,000	$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 highest 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 Rate......... 35% of public offering

Maximum Award............... 35% of public offering

Receipt of Tenders:

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

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

Payment Terms............... By charge to a funds account at a Federal Reserve Bank on issue date, or payment of full par amount with tender. *TreasuryDirect* customers can use the Pay Direct feature which authorizes a charge to their account of record at their financial institution 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
December 06, 1999

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Term:	91-Day Bill
Issue Date:	December 09, 1999
Maturity Date:	March 09, 2000
CUSIP Number:	912795DL2

High Rate: 5.050% Investment Rate 1/: 5.203% Price: 98.723

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 64%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 26,509,424	$ 7,363,586
Noncompetitive	1,358,958	1,358,958
PUBLIC SUBTOTAL	27,868,382	8,722,544 2/
Foreign Official Refunded	300,000	300,000
SUBTOTAL	28,168,382	9,022,544
Federal Reserve	4,321,780	4,321,780
Foreign Official Add-On	0	0
TOTAL	$ 32,490,162	$ 13,344,324

Median rate 5.040%: 50% of the amount of accepted competitive tenders 'as tendered at or below that rate. Low rate 4.980%: 5% of the amount)f accepted competitive tenders was tendered at or below that rate.

.id-to-Cover Ratio = 27,868,382 / 8,722,544 = 3.19

/ Equivalent coupon-issue yield.
' `wards to TREASURY DIRECT = $1,024,393,000

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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

'OR IMMEDIATE RELEASE
)ecember 06, 1999

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Term:	182-Day Bill
Issue Date:	December 09, 1999
Maturity Date:	June 08, 2000
CUSIP Number:	912795DZ1

High Rate: 5.290% Investment Rate 1/: 5.525% Price: 97.326

All noncompetitive and successful competitive bidders were awarded ecurities at the high rate. Tenders at the high discount rate were llotted 74%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 21,775,199	$ 5,424,399
Noncompetitive	1,108,642	1,108,642
PUBLIC SUBTOTAL	22,883,841	6,533,041 2/
Foreign Official Refunded	1,479,000	1,479,000
SUBTOTAL	24,362,841	8,012,041
Federal Reserve	3,850,000	3,850,000
Foreign Official Add-On	0	0
TOTAL	$ 28,212,841	$ 11,662,041

Median rate 5.280%: 50% of the amount of accepted competitive tenders as tendered at or below that rate. Low rate 5.250%: 5% of the amount f accepted competitive tenders was tendered at or below that rate.

id-to-Cover Ratio = 22,883,841 / 6,533,041 = 3.50

/ Equivalent coupon-issue yield.
/ Awards to TREASURY DIRECT = $784,535.000

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