Department of the Treasury

PRESS RELEASES

The following numbers were not used:
348, 405, 416,418,425

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
uary 03, 2000

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Term:	91-Day Bill
Issue Date:	January 06, 2000
Maturity Date:	April 06, 2000
CUSIP Number:	912795DQ1

High Rate: 5.360% Investment Rate 1/: 5.525% Price: 98.645

All noncompetitive and successful competitive bidders were awarded
:urities at the high rate. Tenders at the high discount rate were
.otted 90%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 24,626,210	$ 6,668,756
Noncompetitive	1,284,872	1,284,872
PUBLIC SUBTOTAL	25,911,082	7,953,628 2/
Foreign Official Refunded	63,700	63,700
SUBTOTAL	25,974,782	8,017,328
Federal Reserve	4,554,320	4,554,320
Foreign Official Add-On	0	0
TOTAL	$ 30,529,102	$ 12,571,648

Median rate 5.360%: 50% of the amount of accepted competitive tenders
s tendered at or below that rate. Low rate 5.300%: 5% of the amount
accepted competitive tenders was tendered at or below that rate.

d-to-Cover Ratio = 25,911,082 / 7,953,628 = 3.26

' Equivalent coupon-issue yield.
' Awards to TREASURY DIRECT = $998,178,000

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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
January 03, 2000

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Term:	182-Day Bill
Issue Date:	January 06, 2000
Maturity Date:	July 06, 2000
CUSIP Number:	912795ER8

High Rate: 5.585% Investment Rate 1/: 5.844% Price: 97.176

All noncompetitive and successful competitive bidders were awarded ecurities at the high rate. Tenders at the high discount rate were llotted 26%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 17,851,090	$ 3,248,590
Noncompetitive	1,139,073	1,139,073
PUBLIC SUBTOTAL	18,990,163	4,387,663 2/
Foreign Official Refunded	2,620,000	2,620,000
SUBTOTAL	21,610,163	7,007,663
Federal Reserve	3,445,000	3,445,000
Foreign Official Add-On	0	0
TOTAL	$ 25,055,163	$ 10,452,663

Median rate 5.550%: 50% of the amount of accepted competitive tenders as tendered at or below that rate. Low rate 5.470%: 5% of the amount f accepted competitive tenders was tendered at or below that rate.

.d-to-Cover Ratio = 18,990,163 / 4,387,663 = 4.33

' Equivalent coupon-issue yield.
' Awards to TREASURY DIRECT = $848,099,000

LS-317

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

January 4, 1999

The Treasury Department today released U.S. reserve assets data for the week ending December 31, 1999.

As indicated in this table, U.S. reserve assets totaled $72,028 million as of December 31, 1999, up from $72,002 million as of December 24, 1999.

(in US millions)

I. Official U.S. Reserve Assets	December 24, 1999			December 31, 1999		
TOTAL		72,002			72,028	
1. Foreign Currency Reserves [1]	Euro	Yen	TOTAL	Euro	Yen	TOTAL
a. Securities	5,104	6,232	11,336	5,067	6,283	11,351
Of which, issuer headquartered in the U.S.			0			0
b. Total deposits with:						
b.i. Other central banks and BIS	8,736	12,068	20,803	8,691	12,161	20,852
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]			18,453			*18,430*
3. Special Drawing Rights (SDRs) [2]			10,360			*10,347*
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 24, 1999 are final. Data for SDR holdings and the reserve position in the IMF shown as of December 31, 1999 (in italics) reflect preliminary adjustments by the Treasury to the December 24, 1999 IMF data.

3/ Gold stock is valued monthly at $42.2222 per fine troy ounce. Values shown are as of November 30, 1999. The October 31, 1999 value was $11,049 million.

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U.S. International Reserve Position (cont'd)

II. Predetermined Short-Term Drains on Foreign Currency Assets	December 24, 1999	December 31, 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 24, 1999	December 31, 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		

Offical Reserve Assets Worksheet
(actual US dollar amounts)

	Last Week	This Week		
Enter Dates Here	24-Dec-99	31-Dec-99		
			Change	
Foreign Currency	24-Dec-99	31-Dec-99		Source: NY Fed
Euro Securities	$5,103,991,587.73	$5,067,433,036.58	-36,558,551.15	
Yen Securities	$6,232,288,489.56	$6,283,318,324.20	51,029,834.64	
Sec. Total	*$11,336,280,077.29*	*$11,350,751,360.78*	14,471,283.49	
Euro Deposits	$8,735,543,006.79	$8,690,775,032.84	93,383,240.60	
Yen Deposits	$12,067,849,543.18	$12,161,232,783.78	63,086,550.14	
Deposit Total	*$20,803,392,549.97*	*$20,852,007,816.62*		
Total	$32,139,672,627.26	$32,202,759,177.40		
Euro Rate	*$1.0128*	*$1.0070*		
Yen Rate	*Y 102.95*	*Y 102.16*		

IMF	24-Dec-99	31-Dec-99		Source: IMF (fax)
		(prelim, with adjust.)		
Reserve Tranche	18,452,914,962.48	18,429,512,953.08	-23,402,009.40	
GAB	0.00	0.00	0.00	
NAB	0.00	0.00	0.00	
Total	18,452,914,962.48	18,429,512,953.08	-23,402,009.40	
SDR	10,360,451,229.75	10,347,312,092.79	-13,139,136.96	
			0.00	
as of 11/30/99	24-Dec-99	31-Dec-99		Source: FMS (monthly statement)
Gold	11,048,880,329.36	11,048,880,329.36		
			0	
	24-Dec-99	31-Dec-99		Source: (?)
Other Res.Assets	0	0	26,545,403.79	
TOTAL	**72,001,919,148.85**	**72,028,464,552.64**		

Adjustments to IMF and SDR data, translated at current exchange rates

Prelim. IMF Data Calculation Section	**IN SDRs 24-Dec-99**	**Adjustments**		**SDR rate for 31-Dec-99**	**In USD**
Reserve Tranche	13,427,577,272		13,427,577,272	*0.728591*	$18,429,512,953.08
GAB	0		0		$0.00
NAB	0		0		$0.00
			13,427,577,272	Total =	$18,429,512,953.08
SDRs	7,538,958,465		7,538,958,465	SDRs =	$10,347,312,092.79

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
January 4, 2000

STATEMENT BY TREASURY SECRETARY LAWRENCE H. SUMMERS

I was saddened to learn of the death yesterday of former Treasury Secretary Henry H. Fowler. Secretary Fowler served this Department with great distinction under Presidents Kennedy and Johnson, first as Under Secretary from 1961-64 and then as Secretary from 1965-68. His achievements were many, including his contribution to organizing a two-tier system for the gold market and to the creation of Special Drawing Rights as a supplemental reserve asset in the international monetary system. President Johnson appropriately called him "...the grand architect of the most significant reforms in the international monetary system since Bretton Woods." When he stepped down as Treasury Secretary, he left the nation with a budget surplus; the last annual budget surplus until 1998.

Secretary Fowler was at all times committed to the highest ideals of public service. United States and world economic and financial stability were greatly enhanced because of his dedication. We will miss him.

Our thoughts are with his wife and family.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
January 4, 2000

Contact: Steve Posner
(202) 622-2960

TREASURY ANNOUNCES EFFECTIVE DATES OF FOUR NEW TAX AGREEMENTS

The Treasury Department on Tuesday announced that new income tax treaties with the Republics of Estonia, Latvia, Lithuania and Venezuela entered into force on December 30. The four treaties, to which the U.S. Senate gave advice and consent to ratification in November, all represent new treaty relationships for the United States.

On December 30, the United States notified Estonia, Latvia and Lithuania that the U.S. had complied with the constitutional requirements for entry into force of the bilateral income tax treaty between the United States and each of them. Each of the countries had previously provided reciprocal notifications to the United States and, accordingly, the treaties entered into force on December 30. The treaties apply, with respect to taxes withheld at source, in respect of amounts paid or credited on or after January 1, 2000 and, with regard to other taxes, in respect of taxable years beginning on or after January 1, 2000.

Also on December 30, the United States and Venezuela notified each other of the completion of required procedures for entry into force of the bilateral income tax treaty between the two countries and exchanged instruments of ratification. The treaty therefore entered into force on December 30, 1999. The treaty applies, with respect to taxes withheld at source, for amounts paid or credited on or after January 1, 2000 and, in respect of other taxes, for taxable periods beginning on or after January 1, 2000.

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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
ſanuary 04, 2000

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 52-WEEK BILLS

Term:	364-Day Bill
Issue Date:	January 06, 2000
Maturity Date:	January 04, 2001
CUSIP Number:	912795ES6

High Rate: 5.645% Investment Rate 1/: 5.997% Price: 94.292

All noncompetitive and successful competitive bidders were awarded ecurities at the high rate. Tenders at the high discount rate were llotted 72%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 23,258,191	$ 7,707,591
Noncompetitive	918,275	918,275
PUBLIC SUBTOTAL	24,176,466	8,625,866 2/
Foreign Official Refunded	1,390,000	1,390,000
SUBTOTAL	25,566,466	10,015,866
Federal Reserve	4,925,000	4,925,000
Foreign Official Add-On	0	0
TOTAL	$ 30,491,466	$ 14,940,866

Median rate 5.630%: 50% of the amount of accepted competitive tenders as tendered at or below that rate. Low rate 5.550%: 5% of the amount : accepted competitive tenders was tendered at or below that rate.

.d-to-Cover Ratio = 24,176,466 / 8,625,866 = 2.80

' Equivalent coupon-issue yield.
' Awards to TREASURY DIRECT = $617,399,000

LS-321

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

EMBARGOED UNTIL 2:30 P.M.
January 5, 2000

CONTACT: Office of Financing
202/691-3550

TREASURY TO AUCTION $6,000 MILLION OF 10-YEAR INFLATION-INDEXED NOTES

The Treasury will auction $6,000 million of 10-year inflation-indexed notes to raise cash.

Amounts bid by Federal Reserve Banks for their own accounts and as agents for foreign and international monetary authorities will be added to the offering.

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

The 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 security are given in the attached offering highlights.

oOo

Attachment

LS-322

HIGHLIGHTS OF TREASURY OFFERING TO THE PUBLIC OF
10-YEAR INFLATION-INDEXED NOTES TO BE ISSUED JANUARY 18, 2000

January 5, 2000

Offering Amount............................$6,000 million

Description of Offering:
Term and type of security..................10-year inflation-indexed notes
Series.....................................Series A-2010
CUSIP number...............................912827 5W 8
Auction date...............................January 12, 2000
Issue date.................................January 18, 2000
Dated date.................................January 15, 2000
Maturity date..............................January 15, 2010
Interest rate..............................Determined based on the highest accepted competitive bid
Real yield.................................Determined at auction
Interest payment dates.....................July 15 and January 15
Minimum bid amount and multiples...........$1,000
Adjusted accrued interest payable by investor ....Determined at auction
Premium or discount........................Determined at auction

STRIPS Information:
Minimum amount required....................$1,000
Corpus CUSIP number........................912820 EK 9
Due date(s) and CUSIP number(s) for additional TIIN(s)..................July 15, 2009 - - 912833 XQ 8
January 15, 2010 - - 912833 XR 6

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 real yield with three decimals, e.g., 3.123%.
(2) Net long position for each bidder must be reported when the sum of the total bid amount, at all yields, and the net long position is $2 billion or greater.
(3) Net long position must be determined as of one half-hour prior to the closing time for receipt of competitive tenders.

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

Receipt of Tenders:
Noncompetitive tenders. Prior to 12:00 noon Eastern Standard time on auction day
Competitive tenders.... Prior to 1:00 p.m. Eastern Standard time on auction day

Payment Terms: 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.

Indexing Information:
CPI Base Reference Period...... 1982-1984
Ref CPI 01/15/2000............. 168.24516
Ref CPI 01/18/2000............. 168.25484
Index Ratio 01/18/2000......... 1.00006

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
January 6, 2000

Contact: Office of Financing
(202) 691-3550

TREASURY'S 10-YEAR INFLATION-INDEXED NOTES JANUARY REFERENCE CPI NUMBERS AND DAILY INDEX RATIOS

Public Debt announced today the reference Consumer Price Index (CPI) numbers and the daily index ratios for the month of January for the 10-year Treasury inflation-indexed notes of Series A-2010. 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 numbers (Ref CPI's) 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 323. 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.

o0o

Attachment

LS-323

Contact: Office of Financing *202-691-3550*

TREASURY 10-YEAR INFLATION-INDEXED NOTES

DESCRIPTION:	Series A-2010
CUSIP NUMBER:	9128275W8
AUCTION DATE:	January 12, 2000
DATED DATE:	January 15, 2000
ORIGINAL ISSUE DATE:	January 18, 2000
MATURITY DATE:	January 15, 2010
Ref CPI on DATED DATE:	168.24516
TABLE FOR MONTH OF:	January 2000
NUMBER OF DAYS IN MONTH:	31

CPI-U (NSA) September 1999	167.9
CPI-U (NSA) October 1999	168.2
CPI-U (NSA) November 1999	168.3

Ref CPI and Index Ratios for January 2000:

Month	Calendar Day	Year	Ref CPI	Index Ratio
January	1	2000	168.20000	
January	2	2000	168.20323	
January	3	2000	168.20645	
January	4	2000	168.20968	
January	5	2000	168.21290	
January	6	2000	168.21613	
January	7	2000	168.21935	
January	8	2000	168.22258	
January	9	2000	168.22581	
January	10	2000	168.22903	
January	11	2000	168.23226	
January	12	2000	168.23548	
January	13	2000	168.23871	
January	14	2000	168.24194	
January	15	2000	168.24516	1.00000
January	16	2000	168.24839	1.00002
January	17	2000	168.25161	1.00004
January	18	2000	168.25484	1.00006
January	19	2000	168.25806	1.00008
January	20	2000	168.26129	1.00010
January	21	2000	168.26452	1.00012
January	22	2000	168.26774	1.00013
January	23	2000	168.27097	1.00015
January	24	2000	168.27419	1.00017
January	25	2000	168.27742	1.00019
January	26	2000	168.28065	1.00021
January	27	2000	168.28387	1.00023
January	28	2000	168.28710	1.00025
January	29	2000	168.29032	1.00027
January	30	2000	168.29355	1.00029
January	31	2000	168.29677	1.00031

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

EMBARGOED UNTIL 2:30 P.M.
January 6, 2000

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 $14,000 million to refund $55,635 million of publicly held securities maturing January 13, 2000, and to pay down about $41,635 million. The amount of maturing publicly held securities includes the 43-day cash management bills issued December 1, 1999, in the amount of $28,006 million, and the 23-day cash management bills issued December 21, 1999, in the amount of $10,004 million.

In addition to the public holdings, Federal Reserve Banks for their own accounts hold $8,702 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 $4,278 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 $956 million into the 13-week bill and $895 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-324

HIGHLIGHTS OF TREASURY OFFERINGS OF BILLS
TO BE ISSUED JANUARY 13, 2000

January 6, 2000

<u>Offering Amount</u>	$7,500 million	$6,500 million
<u>Description of Offering</u>:		
Term and type of security	91-day bill	182-day bill
CUSIP number	912795 DR 9	912795 ET 4
Auction date	January 10, 2000	January 10, 2000
Issue date	January 13, 2000	January 13, 2000
Maturity date	April 13, 2000	July 13, 2000
Original issue date	October 14, 1999	January 13, 2000
Currently outstanding	$11,976 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 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.

PUBLIC DEBT NEWS

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

FOR RELEASE AT 3:00 PM
January 6, 2000

Contact: Peter Hollenbach
(202) 691-3502

PUBLIC DEBT ANNOUNCES ACTIVITY FOR SECURITIES IN THE STRIPS PROGRAM FOR DECEMBER 1999

The Bureau of the Public Debt announced activity figures for the month of December 1999, of securities within the Separate Trading of Registered Interest and Principal of Securities program (STRIPS).

Dollar Amounts in Thousands

Principal Outstanding (Eligible Securities)	$1,871,037,886
Held in Unstripped Form	$1,661,576,664
Held in Stripped Form	$209,461,222
Reconstituted in December	$11,713,463

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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LS-325

TABLE V - HOLDINGS OF TREASURY SECURITIES IN STRIPPED FORM, DECEMBER 31, 1999

Loan Description	Series	Interest Rate	Corpus STRIP CUSIP	Maturity Date	Principal Amount Outstanding in Thousands: Total Outstanding	Portion Held in Unstripped Form	Portion Held in Stripped Form	Reconstituted This Month
Treasury Bonds:								
CUSIP:		Interest Rate						
912810 DM7		11-5/8	912803 AB9	11/15/04	8,301,806	4,437,806	3,864,000	102,400
DQ8		12	AD5	05/15/05	4,260,758	1,844,908	2,415,850	0
DR6		10-3/4	AG8	08/15/05	9,269,713	5,914,513	3,355,200	225,600
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	2,434,384	3,571,200	10,400
DP0		11-1/4	912803 AA1	02/15/15	12,667,799	8,238,199	4,429,600	1,202,880
DS4		10-5/8	AC7	08/15/15	7,149,916	4,895,196	2,254,720	749,440
DT2		9-7/8	AE3	11/15/15	6,899,859	3,178,259	3,721,600	204,800
DV7		9-1/4	AF0	02/15/16	7,266,854	6,534,854	732,000	116,000
DW5		7-1/4	AH6	05/15/16	18,823,551	18,715,551	108,000	96,800
DX3		7-1/2	AK9	11/15/16	18,864,448	17,881,488	982,960	321,200
DY1		8-3/4	AL7	05/15/17	18,194,169	10,595,769	7,598,400	580,320
DZ8		8-7/8	AM5	08/15/17	14,016,858	10,314,458	3,702,400	372,800
EA2		9-1/8	AN3	05/15/18	8,708,639	3,107,039	5,601,600	131,200
EB0		9	AP8	11/15/18	9,032,870	2,540,870	6,492,000	95,000
EC8		8-7/8	AQ6	02/15/19	19,250,798	10,788,398	8,462,400	521,600
ED6		8-1/8	AR4	08/15/19	20,213,832	19,330,952	882,880	62,720
EE4		8-1/2	AS2	02/15/20	10,228,868	8,124,468	2,104,400	127,600
EF1		8-3/4	AT0	05/15/20	10,158,883	3,093,283	7,065,600	31,200
EG9		8-3/4	AU7	08/15/20	21,418,606	7,545,646	13,872,960	833,440
EH7		7-7/8	AV5	02/15/21	11,113,373	10,082,973	1,030,400	43,200
EJ3		8-1/8	AW3	05/15/21	11,958,888	6,700,008	5,258,880	91,200
EK0		8-1/8	AX1	08/15/21	12,163,482	9,509,722	2,653,760	934,720
EL8		8	AY9	11/15/21	32,798,394	15,733,844	17,064,550	1,527,975
EM6		7-1/4	AZ6	08/15/22	10,352,790	9,074,390	1,278,400	164,800
EN4		7-5/8	BA0	11/15/22	10,699,626	3,720,426	6,979,200	308,800
EP9		7-1/8	BB8	02/15/23	18,374,361	11,323,161	7,051,200	168,000
EQ7		6-1/4	BC6	08/15/23	22,909,044	18,487,540	4,421,504	99,264
ES3		7-1/2	BD4	11/15/24	11,469,662	3,529,182	7,940,480	75,680
ET1		7-5/8	BE2	02/15/25	11,725,170	2,997,170	8,728,000	358,400
EV6		6-7/8	BF9	08/15/25	12,602,007	7,701,207	4,900,800	72,960
EW4		6	BG7	02/15/26	12,904,916	11,881,116	1,023,800	10,000
EX2		6-3/4	BH5	08/15/26	10,893,818	7,369,018	3,524,800	156,000
EY0		6-1/2	BJ1	11/15/26	11,493,177	8,357,177	3,136,000	358,400
EZ7		6-5/8	BK8	02/15/27	10,456,071	5,744,071	4,712,000	27,200
FA1		6-3/8	BL6	08/15/27	10,735,756	9,863,756	872,000	140,800
FB9		6-1/8	BM4	11/15/27	22,518,539	17,880,139	4,638,400	150,400
FE3		5-1/2	BP7	08/15/28	11,776,201	11,637,401	138,800	43,600
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	11,339,941	10,400	0
FJ2		6-1/8	CG6	08/15/29	11,178,580	11,178,580	0	0
Total Treasury Bonds					525,910,975	359,081,095	166,829,880	10,516,799
Treasury Inflation-Indexed Notes:								
CUSIP:	Series	Interest Rate						
912827 3A8	J	3-5/8	912820 BZ9	07/15/02	17,661,083	17,661,083	0	0
2M3	A	3-3/8	BV8	01/15/07	16,728,189	16,728,189	0	0
3T7	A	3-5/8	CL9	01/15/08	17,502,000	17,502,000	0	0
4Y5	A	3-7/8	DN4	01/15/09	16,308,703	16,308,703	0	0
Total Inflation-Indexed Notes					68,199,976	68,199,976	0	0
Treasury Inflation-Indexed Bonds:								
CUSIP:		Interest Rate						
912810 FD5		3-5/8	912803 BN2	04/15/28	17,478,800	17,478,800	0	0
FH6		3-7/8	CF8	04/15/29	15,061,358	15,061,358	0	0
Total Inflation-Indexed Bonds					32,540,158	32,540,158	0	0

TABLE V - HOLDINGS OF TREASURY SECURITIES IN STRIPPED FORM, DECEMBER 31, 19...

Loan Description			Corpus STRIP CUSIP	Maturity Date	Principal Amount Outstanding in Thousands: Total Outstanding	Principal Amount Outstanding in Thousands: Portion Held in Unstripped Form	Principal Amount Outstanding in Thousands: Portion Held in Stripped Form	Reconstituted This Month
Treasury Notes								
CUSIP	Series	Interest Rate						
912827 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	6,719,433	3,953,600	115,600
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	4,792,230	5,704,000	132,800
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	6,556,966	4,523,680	9,920
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	6,186,882	5,332,800	11,200
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	19,471,572	3,200	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	7,786,402	3,526,400	4,800
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	8,561,833	3,836,250	202,200
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	9,174,385	3,164,800	11,200
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	18,797,828	18,797,828	0	0
5R9	AE	5-7/8	ED5	10/31/01	19,196,000	19,196,000	0	0
D25	D	7-1/2	BC0	11/15/01	24,226,102	19,921,542	4,304,560	64,640
F49	A	7-1/2	BD8	05/15/02	11,714,397	8,689,677	3,024,720	10,000
G55	B	6-3/8	BE6	08/15/02	23,859,015	22,110,215	1,748,800	80,000
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	11,843,780	276,800	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	22,850,787	711,904	214,784
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	27,585,428	425,600	110,400
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	0
N81	A	5-7/8	BH9	02/15/04	12,955,077	12,883,077	72,000	6,400
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	14,377,972	62,400	98,400
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	12,466,467	880,000	122,400
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
5S7	H	5-7/8	EE3	11/15/04	18,405,756	18,405,756	0	0
S86	A	7-1/2	BM8	02/15/05	13,834,754	13,803,154	31,600	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	ER7	02/15/06	15,513,587	15,513,267	320	0
X80	B	6-7/8	BS5	05/15/06	16,015,475	15,924,915	90,560	1,920
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	13,032,830	70,848	0
2U5	C	6-5/8	BX4	05/15/07	13,958,186	13,916,586	41,600	0
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	27,399,879	27,399,779	100	0
Total Treasury Notes					1,244,386,777	1,201,755,435	42,631,342	1,196,664
Grand Total					1,871,037,886	1,661,576,664	209,461,222	11,713,463

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
January 10, 2000

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Term:	91-Day Bill
Issue Date:	January 13, 2000
Maturity Date:	April 13, 2000
CUSIP Number:	912795DR9

High Rate: 5.235% Investment Rate 1/: 5.392% Price: 98.677

All noncompetitive and successful competitive bidders were awarded ecurities at the high rate. Tenders at the high discount rate were llotted 64%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 24,593,448	$ 5,991,448
Noncompetitive	1,457,115	1,457,115
PUBLIC SUBTOTAL	26,050,563	7,448,563 2/
Foreign Official Refunded	55,000	55,000
SUBTOTAL	26,105,563	7,503,563
Federal Reserve	4,961,860	4,961,860
Foreign Official Add-On	0	0
TOTAL	$ 31,067,423	$ 12,465,423

Median rate 5.220%: 50% of the amount of accepted competitive tenders as tendered at or below that rate. Low rate 5.150%: 5% of the amount f accepted competitive tenders was tendered at or below that rate.

id-to-Cover Ratio = 26,050,563 / 7,448,563 = 3.50

/ Equivalent coupon-issue yield.
/ Awards to TREASURY DIRECT = $1,057,152,000

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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
anuary 10, 2000

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Term:	182-Day Bill
Issue Date:	January 13, 2000
Maturity Date:	July 13, 2000
CUSIP Number:	912795ET4

High Rate: 5.420% Investment Rate 1/: 5.665% Price: 97.260

All noncompetitive and successful competitive bidders were awarded ecurities at the high rate. Tenders at the high discount rate were llotted 9%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 18,420,107	$ 2,398,357
Noncompetitive	1,282,950	1,282,950
PUBLIC SUBTOTAL	19,703,057	3,681,307 2/
Foreign Official Refunded	2,819,000	2,819,000
SUBTOTAL	22,522,057	6,500,307
Federal Reserve	3,740,000	3,740,000
Foreign Official Add-On	0	0
TOTAL	$ 26,262,057	$ 10,240,307

Median rate 5.395%: 50% of the amount of accepted competitive tenders s tendered at or below that rate. Low rate 5.320%: 5% of the amount accepted competitive tenders was tendered at or below that rate.

d-to-Cover Ratio = 19,703,057 / 3,681,307 = 5.35

Equivalent coupon-issue yield.
Awards to TREASURY DIRECT = $974,173,000

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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

U.S. International Reserve Position

January 11, 2000

The Treasury Department today released U.S. reserve assets data for the week ending January 7, 2000.

As indicated in this table, U.S. reserve assets totaled $71,410 million as of January 7, 2000, down from $71,537 million as of December 31, 1999.

(in US millions)

I. Official U.S. Reserve Assets	December 31, 1999			January 7, 2000		
TOTAL		71,537			71,410	
1. Foreign Currency Reserves [1]	Euro	Yen	TOTAL	Euro	Yen	TOTAL
a. Securities	5,067	6,283	11,351	5,180	6,103	11,283
Of which, issuer headquartered in the U.S.			0			0
b. Total deposits with:						
b.i. Other central banks and BIS	8,691	12,161	20,852	8,890	11,813	20,703
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]			17,950			*18,007*
3. Special Drawing Rights (SDRs) [2]			10,336			*10,368*
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 31, 1999 are final. Data for SDR holdings and the reserve position in the IMF shown as of January 7, 2000 (in italics) reflect preliminary adjustments by the Treasury to the December 31, 1999 IMF data.

3/ Gold stock is valued monthly at $42.2222 per fine troy ounce. Values shown are as of November 30, 1999. The October 31, 1999 value was $11,049 million.

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U.S. International Reserve Position (cont'd)

II. Predetermined Short-Term Drains on Foreign Currency Assets

	December 31, 1999	January 7, 2000
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 31, 1999	January 7, 2000
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

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FOR IMMEDIATE RELEASE
January 12, 2000

"The United States Economy and The Challenge of Inclusion"
Remarks by Lawrence H. Summers
Secretary of the Treasury
Rainbow/Push Wall Street Project Conference
New York

Thank you. I am glad to be here today for the opening session of this third annual conference for the Rainbow/Push Wall Street Project. Reverend Jackson, you have been tireless in your national leadership on civil rights and economic empowerment for Americans. Let me take this opportunity to thank you especially for your support for a strong CRA, and your leadership in working with us to expand access to capital in the parts of America that too often get left behind.

I would like to kick off this session with some observations about the broader economic environment and what it means for America's most disadvantaged regions and citizens.

In many, many ways, the performance of the American economy over the past decade has been miraculous. Even five years ago, if anyone had predicted the growth in output and productivity, the high volume of job creation and the modest inflation that we have been able to sustain: it is fair to say that that person would have met with more than a little skepticism.

We can rightly take pride in this prosperity. But enormous challenges remain. And none is more important to this country's future than making sure that every American is included:

- This is a vital moral imperative for all of us as we work to build a better America for our children.

- And it is a critical national economic imperative at a time when every individual brought into the productive enterprise of the nation marks a reduction in potential inflationary threats and expansion of the room for growth.

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This crucial challenge is at the core of the President's New Opportunity Agenda for the coming year – one important piece of which he will be unveiling today with the proposal for a major new expansion of the Earned Income Tax Credit.

Today I would like to make three main points:

- First, that economic growth is the best social policy ever invented.

- Second, that the right kind of government can expand opportunities for the poorest and help the economy.

- Third, that expanding opportunities is crucial to reducing poverty, but we equally recognize that it is far from being enough.

I. Economic Growth and Social Inclusion

Economists have a long word, hysteresis, for a simple thought: that people form habits; that opportunities have a lasting impact; that exploiting the economy's potential increases the economy's potential; and that by running a strong economy that increases demand for labor we make a lasting difference in the lives of our fellow citizens.

Our economic success has created a high-pressure economy where jobs look for people more than people look for jobs. This pulls more people into the workforce and acts as a vital safety valve for pressure that might otherwise have proved unsustainable. And it benefits most the people who would otherwise be trapped in the economic margins.

Consider:

- Every one percentage point decline in the national unemployment rate has brought a nearly 2 percentage point reduction in rate for African-Americans. African-American unemployment averaged 8 percent last year – down from more than 14 percent in 1992

- Labor force participation has risen three times more, in percentage terms, among African-Americans than it has nationally, so that there are now 3 million more African-Americans in the labor market than would have been the case in 1993.

- Wages for African-American full-time workers since 1993 have advanced twice as fast as they have in the workforce overall.

- And because African-Americans in 1993 were much more likely to be living in poverty than other groups, the decline in poverty has also affected this group the most. While the national poverty rate has fallen by nearly 2.5 percentage points, to 12.7 percent, poverty among African-Americans has plummeted by fully 7 percentage points: to a little over 25 percent. That is still much, much too high. But it is a very important step in the right direction.

II. Economic Empowerment for the Most Disadvantaged

A strong economy is and will continue to be hugely important for lifting more Americans out of poverty and into the workforce. But if it is a necessary condition we know well that it is not sufficient. That has been the second pillar of our approach: that a rising tide needs the right kind of public action if all boats are to rise with it.

Support for working families

Over the past 15 years we have had a sea change in the approach that government has taken to the support of America's working poor. In the mid-1980s the federal government was spending around $5 billion on support for low-income working families. Last year, thanks in large part to an expanded EITC, the government spent ten times that amount.

The $45 billion increase in spending on this group is more than twice what was spent on food stamps last year, and it makes an enormous difference to the incentives facing poorer families. For example, a worker with two children who took a minimum wage job in 1993 could expect to earn just over $10,500 in today's dollars – well below the poverty line. As a result of the changes in the EITC and the minimum wage alone, by 1998 that same family stood to earn $13,300, or 26 percent more, in real terms – significantly above the poverty line.

It would be wrong to underestimate the role that this change in policy has played in America's recent economic miracles: not least, the fact that a record percentage of Americans are in the workforce – and the fact that, after nearly nine years of economic expansion, inflation and long-term interest rates are still close to or below the levels they were at when the recovery began.

For example, the share of single mothers in work has risen from just over 60 percent in 1992 to 75 percent in 1998. One recent study by Bruce Meyer and Dan Rosenbaum, published by the National Bureau of Economic Research, estimates that 63 percent of the increase in participation within this group between 1984 and 1996 can be explained by the EITC. Other estimates suggest that it has moved nearly half a million families off welfare.

Today the President is proposing to invest close to $20 billion over ten years in further enhancing the returns to employment for poorer families through the EITC:

- *By reducing marginal tax rates for families with three or more children.* Families with income up to $9,980 in 2001 would get 45 cents for every additional dollar they earn – compared to 40 cents under current law. This would be a tax break for more than 2 million American families.

- *By expanding tax relief for two-earner married couples.* Married couples would be able to earn an additional $1,450 before their EITC starts being phased out. This would benefit more than 1.3 million married workers.

- *And by reducing marginal tax rates for families with two or more children.* For these households, the President is proposing a nearly ten percent cut in the rate at which the EITC is phased out after earnings go beyond the maximum, from just over 21 percent to 19 percent. That would mean a tax break for over 5 million working families.

All told, these proposals would cut taxes by $315, on average, for 6.4 million working families.

Second, expanding access to capital

The second key pillar of our approach is democratizing access to capital. The First Lady likes to say that it takes a village to raise a child. She's right. And it takes capital to build a successful village.

Traditionally and importantly the question of access to capital has been about debt and the provision of loans. We have continued to built on that tradition in recent years:

- Under a revitalized Community Reinvestment Act, last year some $88 billion in private capital flowed into low-income communities for home ownership and small business growth.

- And we have helped to expand the reach of the private sector by creating the Community Development Financial Institutions Fund, or CDFI. CDFIs are locally based, specialized financial institutions that serve markets overlooked by traditional financial institutions. These CDFIs are often the market pioneers in their communities, proving the viability of new market segments, and drawing mainstream financial institutions into partnership. Since 1996 the CDFI Fund has provided over $200 million to such local financial institutions, a sum that has leveraged anything up to ten or fifteen times that amount in total generated investment.

At the same time, we have learned that there can be more important barriers to attracting or creating businesses in our disadvantaged communities and making them a success. Notably, lack of access to equity and lack of the kind of technical expertise business networks that firms in the mainstream economy take for granted.

Growing businesses in these communities are unlikely to attract the attention of venture capitalists, who tend to work with the relationships and communities they already know. At the same time, local venture funds may have difficulty becoming capitalized, developing deal flow, providing the requisite expertise, or managing the risks that come from less diversified local economies. And isolated businesses, both urban and rural, might need greater levels of technical assistance and business advice to succeed.

- That is why the President launched his New Markets Initiative last year, to unlock the potential of America's inner cities and rural areas at time when the purchasing power of these communities is estimated to be close to $700 billion. Tomorrow at this conference the

President will be making an important announcement about the scope of this initiative going forward.

- And that is why, through BusinessLINC, led by Vice President Al Gore, we are encouraging businesses throughout the nation to take a second look at opportunities for partnering with firms in inner cities and rural areas. Indeed, BusinessLINC strategies can be good for both sides, providing large firms with an agile source of products or partner for time-sensitive projects, as well as an entree into new markets. With a private-sector coalition led by Texaco CEO Peter Bijur, and the support of the Business Roundtable, we are working to expand BusinessLINC strategies across the country, including with the Chase Manhattan Bank and the New York City Partnership right here in New York.

The sheer potential that exists here was brought home to me in my very first week as Treasury Secretary, when I visited Harlem, USA, a major retail and entertainment center being developed on 125th Street. This public-private effort – brought together, among other things, by the CRA – is bringing major retailers to an area with a population the size of Cincinnati that previously has had no shopping mall or even, until recently, a major supermarket.

The taxpayer's contribution to this project will not go un-rewarded. Higher New York City tax revenues will pay back the public investment in Harlem, USA in just 9 months. Moreover, and values in the area have increased 5- to 10-fold.

Third, universal access to a bank account

As we think about finance we need also to think about financial services for people. Like money itself, the benefits that a bank account provides are easy to take for granted. Until you do not have one. And today, in the age of the Internet, derivatives, and embedded options, between 10 and 20 percent of American households still lack that basic passport to the broader economy.

If 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 new economy, ensuring access to a basic bank account must also be a national priority. One recent survey in Chicago found that 44 percent of recipients of the EITC used a check cashing service to cash their refund check. And estimates suggest that the costs over a lifetime for low- and middle-income families of paying fees for every check or bill payment could be more than $15,000.

Having a bank account would save these families precious resources. It would also give them the capacity to save on their own account. As recent research by Dalton Conley makes clear, access to savings takes on even greater significance for African-American families today, at a time when racial wealth differences can make all the difference in the world to whether families and their children can see out bad times and break out of poverty.

This can be tackled in a number of ways:

- By encouraging states to help families making the transition from welfare to work to have bank accounts. Building on Individual Development Accounts, states could and should use a portion of their TANF surpluses to ensure that low-cost financial services and financial education are available for families moving to economic self-sufficiency.

- By working with the private sector to find ways to educate Americans about the importance of building wealth through savings and financial literacy.

- By working to provide safe and convenient access to banking services within traditionally underserved communities. As part of this effort the Treasury Department and the Postal Service have established a pilot program to place ATMs in post offices, which will give many low-income families needed access to their funds at a low cost.

- And by building on the experience of the Electronic Transfer Account, which is now a useful entry point to the financial services mainstream for federal benefits recipients without a bank account. In only its first five months, ETA 99 has secured commitments from over 300 banks to offer the account, underlining that these types of innovations can benefit both banks and consumers. We are hoping to work with Congress to expand these efforts going forward.

As part of this approach we will also be encouraging direct deposit of the EITC refund into bank accounts, so that the 19 million working families that are eligible for it receive their refund more quickly and securely – and see less of it eaten away by fees.

III. Where Opportunity Stops and Need Begins

We have all spoken a great deal about opportunity in recent years and we will continue to speak about it a great deal in the future. It is profoundly important. But I would like to conclude today with a different thought: that opportunities only become realities when people are in a position to take advantage of them.

It has been estimated that in America today, a child born of a single teenage mother who did not finish high school has an 80 percent chance of living in poverty at the age of ten. As the First Lady has taught us, what we are any of us able to become can be determined to a very large degree by what happened to us in our pre-school years; by the home we grew up in; by the kind of school that we were able to attend. That will be true, regardless of how fast the economy grows and regardless of how low the rate of unemployment falls.

That is why economic empowerment is about more than a strong economy – important though that it. And it has to be about more than strengthened incentives and support for those with the capacity to find work. It must also be about ensuring every American child starts out with the core essentials: above all, the capacity to read and write.

In this new economy many are rightly focused on preventing a gaping digital divide. We should equally remember that nothing does more to create that divide than the inability to read:

- That is why we need to expand Head Start so that every child can begin his or her education with a real chance.

- That is why Medicaid and the expansion of the Child Health Insurance Program, CHIP, are so important, so more American children come to school healthy and ready to learn.

- And that is why, following the lead set by Bob Rubin, Treasury continues to work to get both Federal agencies and large businesses involved in providing assistance to inner city schools. As part of these efforts, Treasury is now providing internships to high school students and in-kind support to three career academies in DC and one here in New York City in partnership with Sandy Weill's National Academy Foundation.

In short, our commitment to sound policies, both at the macro and a micro level has already paid important dividends in some of America's most disadvantaged communities. But we can and must do more. And we must all work together to do it. Thank you very much.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
January 13, 2000

STATEMENT OF TREASURY SECRETARY LAWRENCE SUMMERS

This morning I have the pleasure of introducing an important new tool for Treasury's management of the public debt in an era of budget surpluses – debt buybacks. Today we are releasing the final regulations that make this important tool available to us, and announcing our plan to use debt buybacks to benefit American taxpayers as we continue to pay down our nation's debt.

As you all know, FY 1999 produced a budget surplus of $123 billion, the largest ever. Following FY 1998's surplus of $69 billion, we have generated the first back-to-back budget surpluses in over forty years. As a result, we have paid down $140 billion in debt held by the public over the past two years, saving taxpayers the billions of dollars in interest payments that would have been due on that amount. And, while future projections are always uncertain, if the President's fiscal framework is adopted and the current fiscal discipline is maintained, we anticipate paying down the debt held by the public to zero within the next fifteen years.

As I have previously noted, reducing the supply of Treasury debt held by the public brings enormous benefits to our economy.

- It means that less of the savings of Americans will flow into government bonds and more will flow into financing capital investment for American businesses and homes for American families.

- It means that we will be less reliant on borrowings from abroad to finance American investment.

- It means that there will be less pressure on interest rates than there would otherwise have been, and therefore lower borrowing costs for businesses and lower interest payments for American families.

At the same time, this success brings a new and welcome debt management challenge for the Federal government. Debt buybacks, which will allow us to repurchase outstanding securities before they mature, are a new tool created to respond to these challenges.

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Debt buybacks have several concrete advantages for our Federal debt management:

- First, they allow us to enhance the liquidity of Treasury benchmark securities, which promotes overall market liquidity and should reduce the government's interest costs over time. The issue of liquidity is important, as can be seen in the noticeable difference in yield between recently issued highly liquid benchmark securities and older less liquid debt. This differential is commonly in the range of 20 basis points.

- Second, by paying off debt that has substantial remaining maturity, buybacks enable us to prevent what would otherwise be a potentially costly and unjustified increase in the average maturity of our debt, which has grown from 5 ¼ years in 1997 to 5 ¾ years in 1999 and, absent countervailing action, would be projected to rise to almost 8 years by 2004. Over the long term, this would impose additional cost on the taxpayers to finance our debt.

- Third, by paying off debt, we can make more effective use of excess cash at times of the year when tax revenues exceed immediate spending needs. For instance, last April our cash balances rose from $5 billion to $75 billion due to the receipt of income tax payments.

Each of these benefits contributes to our ability to meet our overall debt management goals, which include achieving the lowest cost financing for American taxpayers, effective cash management, and promotion of efficient capital markets. We plan to use debt buybacks to help us fulfill each of these goals. The rule that is being released today establishes the procedures by which we will conduct debt buybacks. These include:

- An announcement of the range of eligible maturates.

- A multiple-price, reverse auction format.

- Operations will be conducted through the Federal Reserve Bank of New York.

- Only competitive offers will be accepted.

- Settlement will occur two days after the buyback operation.

While the amount of debt that we intend to purchase will be influenced by a number of factors, we expect to buy back as much as $30 billion this year. We will begin conducting buyback operations in the next few months and expect to conduct several in the first half of the year. We plan to gauge the market reaction to our early experiences and adjust our processes and procedures, including the notice period, size, timing and regularity of the operations. We will prepare the market for our first debt buyback operation by prior public announcement.

Following consultations between OMB and CBO, it has been determined that the most appropriate budget treatment for any purchase premium (or discount) is as a means of financing. This is the section of the budget that includes funds used for debt reduction (or borrowed to finance deficits), seigniorage on coins, changes in Treasury cash balances, and other items that, like debt buybacks, do not represent a true cost to the Federal government.

The Treasury is committed to protecting the interests of the American taxpayer. An era of budget surpluses requires us to adapt by making changes to the way we manage the national debt in a manner consistent with our long-held objectives: achieving the lowest cost of financing for the American taxpayer; maintaining sound cash management practices; and promoting efficient capital markets. Today, we have put in place an important new tool to allow us to manage our nation's debt more efficiently. We look forward to using it to benefit all Americans. Thank you.

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PUBLIC DEBT NEWS

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

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

FOR IMMEDIATE RELEASE
January 12, 2000

CONTACT: Office of Financing
202-691-3550

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

Interest Rate:	4 1/4%	Issue Date:	January 18, 2000
Series:	A-2010	Dated Date:	January 15, 2000
CUSIP No:	9128275W8	Maturity Date:	January 15, 2010
STRIPS Minimum:	$1,000	TIIN Conversion Factor per $1,000 =	12.630378193 1/

High Yield: 4.338% Adjusted Price: 99.298

All noncompetitive and successful competitive bidders were awarded securities at the high yield. Tenders at the high yield were allotted 30%. All tenders at lower yields were accepted in full.

Adjusted accrued interest of $ 0.35029 per $1,000 must be paid for the period from January 15, 2000 to January 18, 2000.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 18,342,855	$ 5,919,355
Noncompetitive	81,777	81,777
PUBLIC SUBTOTAL	18,424,632	6,001,132 2/
Federal Reserve	315,789	315,789
TOTAL	$ 18,740,421	$ 6,316,921

Both the unadjusted price of $ 99.292 and the unadjusted accrued interest of $ 0.35027 were adjusted by an index ratio of 1.00006, for the period from January 15, 2000, through January 18, 2000.

Median yield 4.300%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low yield 4.200%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 18,424,632 / 6,001,132 = 3.07

1/ This factor is used to calculate the Adjusted Values for any TIIN face amount and will be maintained to 2-decimals on Book-entry systems.
2/ Awards to TREASURY DIRECT = $20,845,000

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED UNTIL 12:30 PM
Text as Prepared for Delivery
January 13, 2000

"A New IRS for a New Century"
Remarks by Lawrence H. Summers
Secretary of the Treasury
IRS Modernization Conference
Washington, DC

Thank you Ron, for that kind introduction and for the important role that you played in organizing this conference.

Let me also thank the American Tax Policy Institute, the American Bar Association, the American Institute of Certified Public Accountants, the National Association of Enrolled Agents, and the Tax Executives Institute, who, together with the IRS, are cosponsoring this conference. The practitioner community is a key partner for the IRS and is critical to the advancement of the modernization process.

It is a pleasure to be here today at this IRS Modernization Conference. The very fact that we all are gathered to discuss the progress that has been made in modernizing and reorganizing the IRS and the challenges that lie ahead is a testament to the remarkable job that Charles Rossotti and his management team are doing. Clearly, much work remains, but everyone at the IRS can take pride in the progress that has been made in just the last couple of years.

I. A Recent History of IRS Reform

I am going to focus on that progress in my remarks today, as well as on the road ahead, but first I would like to set the context by reviewing some recent history. It can be instructive to reflect on the past as we contemplate change, and I think it is particularly useful to do so with respect to the IRS.

In 1996, there was a growing concern in Congress and a broad consensus generally that, despite best efforts, the modernization program at IRS was off track.

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Confidence in the IRS was at a low, and it was clear that a sharp turn was needed to put in place lasting, fundamental reforms that would improve the way the IRS served taxpayers.

In response to these concerns, Treasury laid out a plan in the spring of 1997 to bring about change at the IRS. Our goals were to strengthen the institution's leadership; to increase managerial flexibility; to enhance oversight; to improve the IRS's budgeting process; and to work toward a fairer and simpler tax code.

Many voices contributed substantially to the growing momentum for IRS reform. The IRS Restructuring Commission, headed up by Senator Kerrey and Representative Portman, along with Senator Grassley, Representative Coyne, and a host of distinguished tax professionals, issued its report in June of 1997, calling for a number of fundamental reforms at the IRS.

Vice President Gore and a National Performance Review task force of IRS employees, including those on the front lines and members of the National Treasury Employees Union, issued a report to the President in the fall of 1997 that included 200 recommendations for improvements across the board at the IRS.

We should also acknowledge the leadership of Senators Roth, Moynihan, Stevens, Campbell, and Dorgan, and Representatives Kolbe and Hoyer, who have both led the call for reform at IRS and have supported budgets to build reform that is far-reaching and lasting.

The consensus for reform culminated with passage of the most comprehensive restructuring legislation of the IRS in nearly half a century. The 1998 IRS Restructuring and Reform Act called for a transformation in the way IRS operates and relates to its customers. The business of that transformation is, indeed, the focal point of this conference.

At Treasury and at IRS, we listened, we learned, and we prepared for change.

One of our first priorities was to find a Commissioner with the leadership skills and proven ability to implement a major overhaul of the IRS. We sought a candidate with experience running a major, service-oriented business.

As all of you know, we were fortunate enough to recruit Charles Rossotti for the job. With his 28 years of experience in the private sector and his record of success running a large publicly-held information-technology company, we found the perfect candidate to serve as Commissioner. Charles enthusiastically accepted the challenge. Let me say that we are fortunate to have Charles at the helm of the IRS at this critical point in the agency's history, and indeed America is fortunate to have Charles Rossotti as the Commissioner of the IRS.

With Charles' leadership, and the support of talented executives and nearly 100,000 dedicated men and women at the IRS, partnered with the National Treasury Employees Union, much has been accomplished.

II. Improvements at the IRS

Today's IRS, securely on the path of change and reform, is very different from the IRS of a few years ago. Look at just a few recent accomplishments:

- The IRS has established an award-winning web-site which offers information and forms 24 hours a day, 7 days a week. The Washington Post called it "amusing to read," "cool," and "written with a webby breeziness that belies its origin in one of the government's least humorous agencies." The site offers forms, publications, and answers to tax questions, and continues to draw record numbers of taxpayers to it every year. These statistics are truly remarkable: the web site (www.irs.gov) had over 1 billion hits last year and 87 million tax form, publication, and other tax document downloads. The IRS is expecting 1.6 billion hits in 2000
- The IRS is changing the way it does business to bring the agency into the 21st century. Electronic Filing - Telefile, E-file, and On-line Filing - accounted for over 29 million returns last year, a 19% increase over the prior year, including 2.5 million taxpayers who filed their returns on line via their home computer -- a 161% increase over the previous year. We're expecting almost 34 million electronic returns this year. $1.3 trillion in tax deposits in FY 1999 were made electronically under the Electronic Federal Tax Payment System (EFTPS)
- The IRS is implementing increased taxpayer protections and rights as part of the 1998 Restructuring and Reform Act, including more inclusive protections on certain penalty and interest provisions, making a difference in the lives of innocent spouses, and strengthening taxpayer rights in collection and audit situations.
- The IRS is opening its doors wider than ever before to serve taxpayers on their time—including 24 hour-a-day/7day-a-week telephone service, expanded walk-in service hours, translators for taxpayers who do not feel comfortable using English, and problem solving days to help taxpayers with particularly difficult issues find solutions.
- We've also figured out that what we count, counts. We are well into a process to develop measures that recognize that employee satisfaction, customer satisfaction, and productivity all work together
- Finally, we have begun the process of restructuring the organization itself into four new operating divisions -- Wage and Investment, Small Business/Self-Employed, Large and Mid-size Businesses, and Tax Exempt/Government Entities -- all with renewed commitments to hear more clearly the voice of the customer and to provide enhanced, specialized services. As you heard this morning, we now have on board a full complement of leaders in these new divisions poised to deliver on those commitments.

III. Protecting Taxpayers' Interests (False Tradeoffs)

So, we have in fact charted a new course. At any time of major change, there are some who will look back and ask whether the change was necessary, whether it was for the better, whether anything important was sacrificed in the process.

One of Commissioner Rossotti's first steps as Commissioner was to develop a new mission statement for the IRS to signal the change in course. As is his style and with great wisdom, he turned to the IRS employees for ideas, and thousands poured in. The new mission statement grew out of that response. The IRS Mission Statement reads: "Provide America's taxpayers top quality service by helping them understand and meet their tax responsibilities and by applying the tax law with integrity and fairness to all."

This is a mission that speaks equally to applying the tax law and providing top quality service. As the modernization and reorganization at the IRS has proceeded, some have framed debates on IRS priorities around a trade-off between enforcement and customer service, and have pointed to this new mission statement as an example.

This is a false choice. We have heard similar false choices posed through the years. For example, it has been argued:

- That companies and governments face a tradeoff between how quickly they can grow and how effectively they can protect the environment.

- That manufacturers must choose between improving the efficiency of their production processes and improving the quality of the goods they turn out.

- That businesses must compromise between the level of customer service they can provide and the level of profitability they can attain.

The best businesses know, however, that these are false tradeoffs - that in each case it is possible, and indeed ultimately in their best interest, to achieve both objectives.

This is the approach the IRS is taking. To have effective tax administration, there must be <u>both</u> compliance and high-quality customer service. A tradeoff is neither necessary nor desirable.

Indeed, the changes taking place at the IRS, which Commissioner Rossotti described to you this morning, are aimed at improving <u>both</u> customer service and compliance. For example:

- Electronic filing will produce faster refunds, a reduction in errors, quicker identification of compliance problems, and reduced costs---<u>all at the same time</u>.

- We are rethinking of the way in which collection and enforcement occur, putting more resources on the front end in education and outreach to head off problems early and increase voluntary compliance by helping those who want to pay, pay.

- Having four divisions at the IRS, each focused on a different category of taxpayer, means both that employees will be better able to provide support to the customers they serve, and that they will be better prepared to detect and address any irregularities that appear on filers' returns.

IV. The Road Ahead

While we are now confident that the IRS is on the right track, I think Commissioner Rossotti would be the first to tell you that much more work lies ahead.

In the coming months, IRS will be devoting significant time and resources to implementing the reorganization, to ensuring that all systems remain Y2K ready and operating properly, and to advancing the ongoing modernization effort. At the same time, as at the beginning of every year, the IRS will be heavily focused on ensuring the completion of another successful filing season.

We at Treasury are committed to continuing our close working relationship with the leadership team at the IRS - a relationship that is as strong as it has been in the past 50 years.

That commitment means continuing to ensure that the IRS has adequate resources to confront the challenges it faces. I am pleased to report that we expect the President's budget for fiscal year 2001 to allow the IRS to continue to make the investments in its people and in technology that are critical to the modernization process. Most importantly, our budget proposal will allow the IRS to end the shrinkage of its workforce that has in recent years only added to its challenges as it makes this difficult transition.

Resources will also allow the IRS to continue to take advantage of modern technology to build the kind of IRS America deserves. Critics of the IRS have noted that it had the best 1960's technology money could buy. We can no longer afford to wait for 30 years for major technology enhancements. Technology is moving too fast and America's expectations are too high.

These investments will translate into opportunities to process returns quicker, issue refunds faster, and deliver error-free service at less cost over time. Taking advantage of new technology will allow IRS to increase the availability of electronic filing and promote growth in the area of electronic payments and other innovations that are the future of better tax administration, and the benchmarks of better government.

Specifically, to further encourage the use of electronic filing, I am today announcing that the President's budget will include a new refundable tax credit proposal for individual taxpayers who file their returns electronically. This $10, refundable credit will provide an incentive for filing on-line and reward individual taxpayers who transact their business with the IRS in a way that helps improve the accuracy and efficiency of IRS processing. Taxpayers using Telefile, filing returns using their telephone, will receive a $5 refundable credit under this proposal.

This year will also see another major addition to the reform effort at the IRS, with the first meeting of the IRS Oversight Board. As many of you know, the board will bring in seasoned professionals from private industry, academia, and labor--working with Commissioner Rossotti and myself--to serve in a role similar to a Board of Directors for a private corporation. Though finalizing a slate of qualified and willing candidates has, to the frustration of many - including me personally - taken longer than we ever imagined, Commissioner Rossotti and I look forward to the benefits of their strategic and managerial guidance.

V. Concluding Remarks

As significant as the changes going on within the IRS are, one simple truth remains constant, reflected in the words of Oliver Wendell Holmes, and engraved on the front of the IRS building:

"Taxes are the price we pay for a civilized society."

Americans depend on the IRS to collect the revenues used to educate our children, to protect our nation's borders, to ensure the safety of the food we eat, and to provide countless other services that each of us relies upon day in, day out.

I believe that IRS now has the right leadership, the right mission, the right organizational structure to stay the course, and to deliver to the American people the kind of tax agency America deserves.

The practitioner community that is so well represented in this audience today will play a critical role in making the IRS the most effective institution it can be. It is you, after all, who work closest with the IRS on behalf of your clients and are therefore most intimately familiar with the challenges it faces and the places where we can and must do better. I hope that all of you will continue to be active partners in the coming months and years as we continue to follow through on this fundamentally new course for the Internal Revenue Service.

Finally, let me conclude by acknowledging the hard work and dedication of the men and women of the Internal Revenue Service. They perform critical work on behalf of our country, collecting 95% of the nation's tax revenue, frequently under very difficult, sometimes dangerous conditions. We all owe them a debt of gratitude for the work that they do -- and for their efforts, which allowed this agency to begin making the sharp turn it needed to make three years ago. Commissioner Rossotti has turned to them from day one for the guidance and support he needed to get this done--and they have been there. To them I pledge, on behalf of the Treasury Department and this Administration, that we will be there for them. We will continue to seek the resources necessary to provide them with the tools that they need to do their jobs, and we will continue to support Commissioner Rossotti and his team as they lead IRS into the next century.

Thank you.

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PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
January 14, 2000

Contact: Office of Financing
(202) 691-3550

TREASURY'S INFLATION-INDEXED SECURITIES FEBRUARY 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 February 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, (6) the 3-7/8% 30-year bonds due April 15, 2029, and (7) the 4-1/4% 10-year notes due January 15, 2010. 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 333. The information is also available on the Internet at Public Debt's website (http://www.publicdebt.treas.gov).

The information for March is expected to be released on February 18, 2000.

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Attachment

LS-333

TREASURY INFLATION-INDEXED SECURITIES
Ref CPI and Index Ratios for
February 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
Feb. 1 2000	168.30000	1.06226	1.05086	1.04175	1.04056
Feb. 2 2000	168.30000	1.06226	1.05086	1.04175	1.04056
Feb. 3 2000	168.30000	1.06226	1.05086	1.04175	1.04056
Feb. 4 2000	168.30000	1.06226	1.05086	1.04175	1.04056
Feb. 5 2000	168.30000	1.06226	1.05086	1.04175	1.04056
Feb. 6 2000	168.30000	1.06226	1.05086	1.04175	1.04056
Feb. 7 2000	168.30000	1.06226	1.05086	1.04175	1.04056
Feb. 8 2000	168.30000	1.06226	1.05086	1.04175	1.04056
Feb. 9 2000	168.30000	1.06226	1.05086	1.04175	1.04056
Feb. 10 2000	168.30000	1.06226	1.05086	1.04175	1.04056
Feb. 11 2000	168.30000	1.06226	1.05086	1.04175	1.04056
Feb. 12 2000	168.30000	1.06226	1.05086	1.04175	1.04056
Feb. 13 2000	168.30000	1.06226	1.05086	1.04175	1.04056
Feb. 14 2000	168.30000	1.06226	1.05086	1.04175	1.04056
Feb. 15 2000	168.30000	1.06226	1.05086	1.04175	1.04056
Feb. 16 2000	168.30000	1.06226	1.05086	1.04175	1.04056
Feb. 17 2000	168.30000	1.06226	1.05086	1.04175	1.04056
Feb. 18 2000	168.30000	1.06226	1.05086	1.04175	1.04056
Feb. 19 2000	168.30000	1.06226	1.05086	1.04175	1.04056
Feb. 20 2000	168.30000	1.06226	1.05086	1.04175	1.04056
Feb. 21 2000	168.30000	1.06226	1.05086	1.04175	1.04056
Feb. 22 2000	168.30000	1.06226	1.05086	1.04175	1.04056
Feb. 23 2000	168.30000	1.06226	1.05086	1.04175	1.04056
Feb. 24 2000	168.30000	1.06226	1.05086	1.04175	1.04056
Feb. 25 2000	168.30000	1.06226	1.05086	1.04175	1.04056
Feb. 26 2000	168.30000	1.06226	1.05086	1.04175	1.04056
Feb. 27 2000	168.30000	1.06226	1.05086	1.04175	1.04056
Feb. 28 2000	168.30000	1.06226	1.05086	1.04175	1.04056
Feb. 29 2000	168.30000	1.06226	1.05086	1.04175	1.04056

CPI-U (NSA) for : October 1999 168.2 November 1999 168.3 December 1999 168.3

TREASURY INFLATION-INDEXED SECURITIES
Ref CPI and Index Ratios for
February 2000

Security:	3-7/8% 10-Year Notes	3-7/8% 30-Year Bonds	4-1/4% 10-Year Notes
Description:	Series A-2009	Bonds of April 2029	Series A-2010
CUSIP Number:	9128274Y5	912810FH6	9128275W8
Dated Date:	January 15, 1999	April 15, 1999	January 15, 2000
Original Issue Date:	January 15, 1999	April 15, 1999	January 18, 2000
Additional Issue Date:	July 15, 1999	October 15, 1999	
Maturity Date:	January 15, 2009	April 15, 2029	January 15, 2010
Ref CPI on Dated Date:	164.00000	164.39333	168.24516

Date	Ref CPI	Index Ratio	Index Ratio	Index Ratio
Feb. 1 2000	168.30000	1.02622	1.02376	1.00033
Feb. 2 2000	168.30000	1.02622	1.02376	1.00033
Feb. 3 2000	168.30000	1.02622	1.02376	1.00033
Feb. 4 2000	168.30000	1.02622	1.02376	1.00033
Feb. 5 2000	168.30000	1.02622	1.02376	1.00033
Feb. 6 2000	168.30000	1.02622	1.02376	1.00033
Feb. 7 2000	168.30000	1.02622	1.02376	1.00033
Feb. 8 2000	168.30000	1.02622	1.02376	1.00033
Feb. 9 2000	168.30000	1.02622	1.02376	1.00033
Feb. 10 2000	168.30000	1.02622	1.02376	1.00033
Feb. 11 2000	168.30000	1.02622	1.02376	1.00033
Feb. 12 2000	168.30000	1.02622	1.02376	1.00033
Feb. 13 2000	168.30000	1.02622	1.02376	1.00033
Feb. 14 2000	168.30000	1.02622	1.02376	1.00033
Feb. 15 2000	168.30000	1.02622	1.02376	1.00033
Feb. 16 2000	168.30000	1.02622	1.02376	1.00033
Feb. 17 2000	168.30000	1.02622	1.02376	1.00033
Feb. 18 2000	168.30000	1.02622	1.02376	1.00033
Feb. 19 2000	168.30000	1.02622	1.02376	1.00033
Feb. 20 2000	168.30000	1.02622	1.02376	1.00033
Feb. 21 2000	168.30000	1.02622	1.02376	1.00033
Feb. 22 2000	168.30000	1.02622	1.02376	1.00033
Feb. 23 2000	168.30000	1.02622	1.02376	1.00033
Feb. 24 2000	168.30000	1.02622	1.02376	1.00033
Feb. 25 2000	168.30000	1.02622	1.02376	1.00033
Feb. 26 2000	168.30000	1.02622	1.02376	1.00033
Feb. 27 2000	168.30000	1.02622	1.02376	1.00033
Feb. 28 2000	168.30000	1.02622	1.02376	1.00033
Feb. 29 2000	168.30000	1.02622	1.02376	1.00033

CPI-U (NSA) for : October 1999 168.2 November 1999 168.3 December 1999 168.3

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR IMMEDIATE RELEASE
January 12, 2000

Contact: Public Affairs
(202) 622-2960

SECRETARY SUMMERS TO VISIT INDIA, INDONESIA AND JAPAN

Treasury Secretary Lawrence H. Summers will visit India and Indonesia prior to attending the G-7 Finance Ministers' meeting in Tokyo, Japan, on January 22. While in the region, he will meet with government officials and business leaders.

In India, Secretary Summers will visit Bombay (Jan. 17), New Dehli (Jan. 18) and Bangalore (Jan.19.) He will speak to the Confederation of Indian Industry at 5 p.m. Monday, January 17 at the Taj Hotel in Bombay.

Following India, the Secretary will travel to Jakarta, Indonesia, and will speak at a noon luncheon Thursday, January 20 jointly hosted by the Indonesian Economists Association and the American Chamber of Commerce at the Regent Hotel.

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DEPARTMENT OF THE TREASURY

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FOR IMMEDIATE RELEASE
January 13, 2000

Contact: Bill Buck
(202) 622-2960

TREASURY DEPARTMENT LAUNCHES DEBT BUYBACK PROGRAM

Treasury Secretary Lawrence H. Summers on Thursday announced the introduction of debt buybacks, an important new tool for Treasury's management of the public debt and announced Treasury's plan to buy back as much as $30 billion of Federal debt held by the public.

"Buying back old, higher-interest debt allows us to manage the Federal debt in a way that saves the American taxpayer money," said Secretary Summers. "We are committed to paying down the Federal debt in a way that best serves the interest of the American taxpayer."

During the first half of the year, Treasury plans to conduct several buyback operations and may buy back as much as $30 billion in 2000.

Debt buybacks have several advantages for Federal debt management. They enhance the liquidity of Treasury benchmark securities, which promotes overall market liquidity and should help reduce the government's interest costs over time. Buybacks will help prevent a potentially costly and unjustified increase in the average maturity of American debt by paying off debt that has substantial remaining maturity. When tax revenues exceed immediate spending needs debt buybacks are an effective use of excess cash.

Over the last two years, America has made the largest pay down of debt ever -- $140 billion -- and debt held by the public is $1.7 trillion lower than it was projected to be in 1993. As a result, in 1999 alone, interest payments on the debt were $91 billion lower than projected.

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EMBARGOED UNTIL 10:00 AM
Text as Prepared for Delivery
January 14, 2000

"The Imperative of Balanced Global Economic Growth"
Remarks by Lawrence H. Summers
Secretary of the Treasury
Institute for International Economics

I would like to take the opportunity today to reflect on the global economy in these first months of a new century as the financial crises of 1997 and 1998 abate, as growth in Europe and Japan begin to turn upwards, and we prepare for the upcoming G7 meetings in Tokyo.

A welcome consequence of the recent upturn in conditions outside the United States is that it is moving us away from a time when we found ourselves to be the main engine of global growth. As the period of repair continues, achieving sustained and stable growth with increasing balance in the pattern of expansion across economies – while preserving a broad framework of financial stability – will and must be the first item on the G7 agenda in Tokyo and beyond.

Success will depend on what we do here in the United States. It will also depend importantly on what others do. Let me turn first to the challenges here at home.

I. The United States

Americans can take satisfaction from the progress that the United States economy has made during the past ten years.

- At the start of the decade, the debate was about how high unemployment would remain and how long the productivity slowdown would last. Today, forecasters debate how low unemployment can go with inflation still subdued, and how to extrapolate the productivity improvements that have recently been achieved.

- At the start of the decade, debate focused on preventing the federal deficit spiraling further out of control. Today the question is how best to manage the prospect of rising surpluses.

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- At the start of the decade, there was the concern that social problems would prove intractable. That continues to concern us today. But with welfare rolls at half their previous level; crime rates lower than they have been in a generation; education measures rising; poverty declining; and real wages growing at every level of income, it is fair to say that we are seeing real progress.

I believe this progress reflects a number of factors.

First, competitive finance and market flexibility. These made it possible for large-volume finance to flow into the industries of tomorrow. It has been estimated that in the 1950s and 1960s it took 20 years for one-third of the companies in the Fortune 500 to be replaced by new entrants. In the 1970s, it took a decade. In more recent times – just five years.

Second, the restoration of fiscal discipline. By balancing the budget, we have helped double our rate national savings and built a highly supportive environment for private investment. Nearly $2 trillion dollars that would, according to the deficit projections made in 1993, have been absorbed in public borrowing has instead been invested in private sector investment and employment. Real investment as a share of GNP is now higher than it has been at any time in the past 50 years, in turn helping the recovery to be more long-lived

Third, the maintenance of an open economy. 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, encouraged innovation, and helped sustain growth with low inflation such that even now, nearly 9 years into an expansion, long-term interest rates are significantly lower than they were when the recovery began

Fourth, strengthened support and incentives for low-income workers. Thanks to successive expansions of the Earned Income Tax Credit, federal spending on support for low-income working families is now ten times what it was in the mid-1980s This increase in the return to lower-paid work is not unrelated to the fact that a higher percentage of our population is in the active labor force than at any time in peacetime history, and it provides another reason why inflation has remained so subdued

However – as strong as the fundamentals of our economy are, and as strong as investment has continued to be – it is important for all of us to remember that just as the world in 1999 looks very different from the world of 1989, so too did things look very different in 1989 than in 1979 – and so will 2009 surely look very different from today

None of us can afford to be complacent or to take these good times for granted Indeed, complacency can itself be a threat to good times, if it leads to excessive borrowing or lending, unsustainable spending plans, or a failure on the part of consumers, businesses or government to recognize the uncertainties that are inevitable in economic life

We cannot know what our economy will look like a decade hence. What we do know is that we are now enjoying a very prosperous moment We need to take advantage of this moment of prosperity to build the conditions for a more durable expansion with a reduction in the imbalances that have emerged in our economy and the global economy.

Any current account deficit is a reflection of the amount of domestic expenditure relative to the amount of goods produced or, equivalently, the amount invested domestically relative to the amount that is saved. When, as it does now in the US, the imbalance reflects a period of strong growth relative to the rest of the world, accelerating productivity gains and relatively high investment in our productive potential, and takes places in a context of rising public sector savings, it is unlikely to pose an immediate risk to the well being of the economy. Indeed, quite the reverse.

At the same time, it is obviously important, for our own economy and for the global economy as a whole that the United States move over time to a more balanced external situation because a more balanced expansion is likely to be a more durable one. As Secretary Rubin used to say: the world cannot indefinitely sustain the present level of imbalances that have emerged in the growth and openness of the United States and the rest of the world.

The key contributions that we can make to a smooth domestic and global adjustment in the pattern of growth are:

- Preserving our hard-won fiscal discipline and the increased room for domestically funded investment that such discipline creates. That means continuing to pay down debt and avoiding excessive tax cuts that could put future surpluses in doubt.

- Doing all that we can to raise private saving. Some of the significant fall in household saving appears to be due to the temporary impact of large wealth gains on consumption, so this should pass in due course. But national saving remains uncomfortably low – both relative to other industrial economies and to our own experience in the 1950s and 1960s.

- Doing all that we can to include every American in the productive enterprise of the nation, through further expansion of our support for the working poor and stronger efforts to combat social exclusion. This is a moral imperative. It is also an economic imperative at a time when increasing our productive capacity means a reduction in future inflationary threats.

These steps will promote the prospects for a healthy, savings-driven adjustment process in the United States. And the best way of supporting that kind of healthy adjustment – the best for the United States, for the G7 economies and for the global economy as a whole – will be for higher national savings in the United States to be accompanied by a more open and rapidly growing global economy. This, in turn, will depend critically on what happens in Europe and Japan.

II. The G7 Challenge

Americans must guard against the complacency that can come from strong past performance. But our experience reminds us that poor performance can lead to complacency of a different kind. In the United States of a decade ago it was common place to suggest that we needed to accommodate ourselves to diminished expectations about what our economy could achieve. Fortunately, we did not. Governments, workers and businesses in Europe and Japan are increasingly recognizing that they, too, do not have to limit themselves to the hope that growth will return to traditional estimates of potential – and that gradually, more of their economy's substantial wasted or unused capacity will be absorbed.

As Europe and Japan put the 1990s behind them, the right aspiration for policy is much higher than that: achieving a sustained period of growth above what has recently been considered their potential, and encouraging the kind of investments that are necessary to raise the rate at which the economy can expand. This will also help bring about a more balanced pattern of growth in the global economy as a whole.

As policy makers in both regions recognize, this has two dimensions:

- Developing a dynamic micro-economic environment that supports growth in investment and employment.

- Maintaining a supportive and flexible macro-economic stance, at a time when economies are still fragile; global competition is more intense; and there is the prospect that, as in the US, rising investment-led demand will in turn create room for higher effective supply.

Europe

In recent years important foundations of a more dynamic European economy have started falling into place notably, with the development of the single market and introduction of the Euro. But the region's policy makers and businesses see clearly that the micro- and macro-conditions for realizing the full potential of these developments are not yet fully established:

- A truly European financial market is being born, with some private sector estimates suggesting bond issuance around five times higher in 1999 than in 1998 – and innovations such as the German Neuer Markt now making their mark. Yet fixed investment in the euro-area has risen by only 10 percent in real terms, since 1991. In the United States it has nearly doubled. And last year, only 2.5 percent of EU pension fund assets were invested in venture capital, compared with nearly three times that in the US.

- In large part as a result of Europe-wide moves toward deregulation, Europe is considered by private sector analysts to have the most dynamic and well-developed mobile phone markets in the world. But as we are seeing, cross-border takeovers can raise unexpected difficulties in even this more liberalized market. And on average, the OECD has estimated that it takes 12 times longer to set up a new business in Europe than in the US, and four times the cost.

- Several countries have taken steps to improve flexibility in the labor market and thereby boost potential growth in employment. Those who have gone furthest in this direction, such as the UK, Netherlands, Ireland and Denmark, have enjoyed significant declines in structural unemployment and above-average growth. But for the Euro area as a whole, high unemployment has persisted. The jobless rate dipped into single digits last fall. But, at nearly ten percent, it remains higher than in 1990 and much higher than many in a continent with a tradition of social inclusion are willing to accept.

No one knows better than Europe's reforming governments the kind of commitment and political will that will be needed to complete this ambitious agenda for change. But the potential is clearly there. It has not escaped notice that the four countries that have moved furthest with structural reforms, real fixed investment in the 1990s has risen between three and ten times faster than for the Euro-area as a whole.

Maintaining a strongly supportive macro-economic environment will be equally critical. As in the United States, the challenge for the European authorities will be the maintenance of pragmatism and an open mind. Just as we have been struck by the room for inflation-free growth that an investment-led recovery has made available in the United States, so European policy makers will need to be open to the possibility that in the context of high investment and a more responsive labor market, the traditional parameters of relationships between growth and inflation will shift.

Japan

The same structural challenges are presented even more forcefully in Japan. There, important steps have been taken to reverse the poor economic performance of recent years and build an economy that can play its part in a more balanced pattern of global growth. But as the Japanese authorities recognize, enormous obstacles remain if Japan is to achieve the kind of dynamic market-driven growth that its people deserve and its demographic situation demands.

In the financial system, Japan's "Big Bang" liberalization plans for financial services stand out as an example of important progress, including the freeing up of foreign exchange transactions, investment trusts, and brokerage commissions. The authorities have also made real progress toward stabilizing the condition of the major financial institutions and beginning the process of restructuring and consolidation. But all recognize that significant challenges remain: especially asset disposition and the creation of more effective and flexible resolution techniques.

More broadly, as last year's OECD report on regulatory reform in Japan made clear, the authorities' repeated deregulation efforts since 1993 have made headway in few areas outside the financial, telecommunications, and retail sectors. Outside these, markets are still distorted by regulations that impede innovation and competition. Yet the estimated benefits of even this very limited progress underscore how large the ultimate returns could be.

For example, thanks to deregulation of telecommunications:

- Nearly 60 percent of Japanese households now own cellular phones, up from just 3 percent in 1993.

- Planned investment in the mobile communications, at 1.5 trillion yen last year, is now equal to that planned in the entire Japanese auto industry.

- The share of the Japanese population with internet access, at 16 percent, has nearly tripled in two years, although this is still less than half the share in the United States, and below that of many European countries.

Successful structural change will depend on the maintenance of a supportive macro-economic environment. Despite signs of recovery, private sector estimates suggest that the Japanese economy will achieve only a very modest rate of growth this year and barely begin to erode the substantial output gap that now exists.

The Japanese government has committed itself to maintaining a supportive fiscal stance until a self-sustaining recovery in private demand is assured. Over the medium term, Japan faces important fiscal challenges, and going forward there may be increasing limits on the role for fiscal policy as the major source of domestic stimulus. But as the past few years have shown, the greatest threat to the economy's long-term fiscal health would be allowing the economy to slip once again into recession. This makes it all the more important that the overall macro-economic stance continue to be accommodative as growth becomes more firmly established. In that context, the monetary authorities have reaffirmed their commitment to maintaining their zero interest rate policy until deflationary forces have been dispelled.

The broader context

We must welcome the indications of continuing repair in the emerging market economies, even as we recognize that in certain countries, economic and political uncertainties remain severe. Attending the first meeting of the G20 in Berlin last month I was struck by the mood of optimism that is beginning to take hold – sometimes, in countries that just two years ago felt themselves to be staring into the abyss.

In the recovering crisis economies, too, what will be crucial going forward will be to maintain the pressure for reform even as economic conditions begin to turn upwards. It is to be expected that as conditions and confidence in the emerging market economies improve, investment flows will pick up – and the very large swing in their external positions that came with the crises will gradually be reversed. This, too, has the potential to contribute to greater balance in global economic growth.

It has frequently been observed that as a consequence of our strong cyclical performance, a very large proportion of the shift in Asian current accounts that occurred as a result of the crises was mirrored in a rising current account deficit in the United States. The current account surplus for the Euro-area last year, at just over 1 percent of GDP, was broadly unchanged from its level in 1996 – while Japan's has actually risen substantially during this period, from 1.4 percent of GDP in 1996 to roughly 2.5 percent of GDP in 1999. With a successful strategy for supporting strong domestically generated growth in Europe and Japan, this skewed pattern of adjustment would naturally be reversed.

III. Global Challenges Going Forward

I have been talking about the macro- and micro-economic imperatives for successful and balanced global growth. But in a more integrated world, we need to recognize that these have their counterparts in the maintenance of a strong and fully integrated international trading system.

At the micro-economic level, we are seeing daily the potential that integration affords as innovation in telecommunications and information technology spread around the world and the number of the world's people connecting through the Internet grows at exponential rates. At the same time, continuing this progress and building a global economy that works well for all its members will also need efforts that are more overarching.

This will have a national dimension, as countries work to open their markets or, where they are already open, work to maintain support for them to remain so. It will also have a regional dimension, be it the continued expansion and deepening of the European Union or the commitment to greater openness that is reflected in APEC. But now, especially, the development of a strong and prosperous global economy will also require a commitment to a strong multilateral trading system. As we work to seize the opportunity for strong and more widespread economic growth that a recovering global economy affords, this commitment will also need to be an important focus at the upcoming meeting in Tokyo and going forward. Thank you.

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PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
January 14, 2000

CONTACT: Peter Hollenbach
202/691-3502

AMENDED ANNOUNCEMENT OF
TREASURY CALLS 8-1/4 PERCENT BONDS OF 2000-05

The press release dated January 14, 2000, announcing the Treasury Call of the 8-1/4 Percent Bonds of 2000-05, incorrectly stated the amount held by private investors. The amount should be $2,047 million instead of $2,710 million.

All other particulars in the press release remain the same.

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LS-337

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
January 14, 2000

CONTACT: Peter Hollenbach
202/691-3502

TREASURY CALLS 8-1/4 PERCENT BONDS OF 2000-05

The Treasury today announced the call for redemption at par on May 15, 2000, of the 8-1/4% Treasury Bonds of 2000-05, issued May 15, 1975, due May 15, 2005 (CUSIP No. 912810BU1). There are $4,224 million of these bonds outstanding, of which $2,710 million are held by private investors. Securities not redeemed on May 15, 2000, will cease to earn interest.

Payment will be made automatically by the Treasury for bonds in book-entry form, whether held on the books of the Federal Reserve Banks or in *TreasuryDirect* accounts. Bonds held in coupon or registered form should be presented for redemption to financial institutions or mailed directly to the Bureau of the Public Debt, Definitive Processing Group, P.O. Box 426, Parkersburg, WV 26106-0426.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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ARGOED UNTIL 2:30 P.M.
uary 13, 2000

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 roximately $14,000 million to refund $33,064 million of publicly held ırities maturing January 20, 2000, and to pay down about $19,064 million. amount of maturing publicly held securities includes the 66-day cash ıgement bills issued November 15, 1999, in the amount of $16,042 million.

In addition to the public holdings, Federal Reserve Banks for their own ›unts hold $7,556 million of the maturing bills, which may be refunded at highest discount rate of accepted competitive tenders. Amounts issued to ıe accounts will be in addition to the offering amount.

The maturing bills held by the public include $5,202 million held 'ederal Reserve Banks as agents for foreign and international monetary ıorities. Up to $3,000 million of these securities may be refunded within offering amount in each of the auctions of 13-week bills and 26-week bills he highest discount rate of accepted competitive tenders. Additional nts may be issued in each auction for such accounts to the extent that amount of new bids exceeds $3,000 million.

TreasuryDirect customers requested that we reinvest their maturing ıngs of approximately $825 million into the 13-week bill and $755 million the 26-week bill.

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

Details about each of the new securities are given in the attached offer- ıighlights.

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HIGHLIGHTS OF TREASURY OFFERINGS OF BILLS
TO BE ISSUED JANUARY 20, 2000

January 13, 2000

Offering Amount	$7,500 million	$6,500 million
Description of Offering:		
Term and type of security	91-day bill	182-day bill
CUSIP number	912795 DS 7	912795 ED 9
Auction date	January 18, 2000	January 18, 2000
Issue date	January 20, 2000	January 20, 2000
Maturity date	April 20, 2000	July 20, 2000
Original issue date	October 21, 1999	July 22, 1999
Currently outstanding	$12,206 million	$15,373 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.

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EMBARGOED UNTIL 3 PM (LOCAL TIME)
Text as Prepared for Delivery
January 16, 2000

"THE UNITED STATES AND INDIA IN A NEW GLOBAL ECONOMY"
TREASURY SECRETARY LAWRENCE H. SUMMERS
REMARKS TO THE CONFEDERATION OF INDIAN INDUSTRY
MUMBAI, INDIA

Thank you. I am delighted to be here. A strong United States relationship with India takes on increasing significance today, because of the importance of building consensus between industrial and developing countries on how to shape global integration; because of the major challenges facing this country as you contemplate a new wave of reforms; because of India's economic potential and the consequences that its emergence will have for global affairs.

After a long period in which India has perhaps not received the global attention that it deserves, that time of comparative world neglect is surely past. The United States and India have concerns in common and equally, some differences on how best to approach them. But by investing in a deeper, many-sided relationship we can hope to better confront the strategic concerns that have been at the forefront of attention in recent years. In that context we expect President Clinton's upcoming visit – the first by a US President in more than 20 years – to mark a turning point.

I want to focus today on the most important economic debate that the world will face in the decades to come, one to which the United States and India can make a unique contribution. That is how best we can build a successful and truly integrated global economy.

Let me discuss four issues:

- First, the key forces that are shaping a new global economy.

- Second, the enormous global benefits that this process of integration could bring.

- Third, the kind of national policies that will be needed to support this kind of integration: in the United States and in India.

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- Fourth, the broader international challenge of building a framework for integration that will make it work for everyone.

I. Three Forces Driving a New Global Economy

Many elements are building a new global economy. But three mutually reinforcing developments are at its center.

First, revolutions in technology

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 time. 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 propel the second key trend of recent years: the erosion of centralized economic controls and the spread of market forces.

It cannot be an accident that Soviet-style communism, planning ministries in the developing world and large US corporations run by command and control all ran into a brick wall in the same decade and had to be restructured. 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 the license Raj. 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. This is the beginnings of a global economy that is worthy of the name – one in which goods, capital and information flow freely across the globe to where they will be most effective in spurring growth.

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 literally billions of 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.

II. The Enormous Potential Benefits from Integration

Taken together, this is an event, I would argue, whose importance in economic history can be compared only to the Industrial Revolution and the Renaissance. For business, it means commercial opportunity on a huge scale. For governments it means managing in a single decade changes in the balance of economic power that might once have taken half a century. For the world's people – it offers the prospect of improvements in health, literacy, and living standards that were unthinkable even two decades ago:

- In 1997, around 70 percent of the developing world population was living in countries where per capita incomes grew by 3 percent or more – compared to 44 percent in 1991. Growing at that pace, real per capita incomes double in less than 25 years. Growing at 1.4 percent a year – the average rate in the developing countries between 1974 and 1990, it would take more than 50 years.

- Economic opening and market reforms in China have reduced the number below the official poverty line from 250 million to around 60 million, even as the population has grown by close to 350 million.

- And here in India, the partial opening that took place in the early 1990s has spurred growth of around 6.5 percent per year in the past decade – compared to around 3.5 percent annual growth in the 1960s and 1970s. One crucial consequence of this progress has been a record increase in national literacy, from 52 to 64 percent.

The potential for a step-change in the prospects of every nation is palpable. Yet, just as so many are enjoying the new opportunities that this world brings – millions are falling further behind. At the end of the 19th century, the ratio of the average incomes of the world's richest countries to the poorest was 9 to 1. In 1985 the ratio was 52 to 1. Today it is probably closer to 60 to 1.

The question that the world is rightly and increasingly focused on at the start of this new century is whether this trend toward divergence will continue or whether it will be reversed. The answer matters to the people and countries today that are being left behind, because they fear that the trend is irreversible. But it must be an equally large concern for those who are speeding ahead – because global integration that fails large parts of the world will ultimately fail every one of us.

- Success will depend, first and foremost, on national policies: whether industrial and developing countries embrace integration and pursue the right policies to make it work for all their citizens. As Robert Lucas has noted, the logical end-point of globalization is not that there should be a larger gap between the incomes of rich and poor countries – but that there should be none. The divergence we see today is not because more countries are integrating themselves with the global economy. It is because so many countries are not.

- It will also depend on the frameworks and policies that we develop internationally to support integration and respond to the needs of this very different time – notably, by deepening and broadening the terms of the relationship between industrial and developing countries.

Let me discuss each of these in turn.

III. National Policies for Successful Economic Integration

The United States

We in the United States have been grappling with these changes in our economy and economic life during the past decade. Our success in creating the right kind of environment for resources to flow to new entrepreneurs has made the United States – like some parts of India are perhaps becoming today – a place where if you have a sufficiently good idea, you can raise your first $100 million before you buy your first suit.

This, in turn, has rested on our recognition that a new economy is based on old fiscal virtue. By reining in the budget deficit during the past decade we have helped keep long-term interest rates down and growth and job creation up. And we have freed $2 trillion that would otherwise have been absorbed in government paper to instead be invested in our country's future: its businesses, its workers and its homes.

Yet, while these are great successes, perhaps the most troubling aspect of our country's performance, across a wide range of the political spectrum, is our inability to ensure that every American feels included. After a long period when it was not the case, a rising tide has lifted almost all boats in recent years, but some have risen much, much higher than others have.

By working to increase our support for the working poor (which is now ten times higher than it was in 1985), by working to improve the quality of our education system; and by working to meet the basic needs of our children, we are seeking to address this problem of exclusion because it is a moral imperative. It must also be an economic imperative at a time when continued social cohesion will be important to our capacity to move forward.

In part this is an issue of inequality. It is also an issue of insecurity. When Robert Kennedy ran for President in 1968, he spoke about it being a new more dynamic economy because the average American entering the workforce could expect to have 4 jobs over the course of their lifetime. Bill Clinton used a similar formulation in 1992, except the number of jobs had risen to 7. And the pace of change can only be increasing.

We do not have all the answers to the challenge of insecurity and exclusion in this new economy. But they will surely bulk larger in the years ahead. And they will have consequences beyond the United States: because our capacity to create the kind of global integration that it is in so much in our interest and in the world's interest will depend on our making it work for everyone.

India

Here in India, you do not need to look to East Asia or China to see the benefits that membership of this new global economy can bring. You need only look to the explosive growth of Indian IT. I look forward to seeing Bangalore for myself later this week. Along with Hyderabad, Gurgaon, and others, it is truly an embodiment of the idea that the information revolution can bring prosperity and opportunity globally, not just to the few.

Like the success of Indian ex-patriot communities in California, New York and the English Midlands before it, the success of firms such as Infosys, Wipro and Satyam says a great deal about the vast potential that Indians' closer integration with the global economy could unlock. At the same time, it also says a great deal about the obstacles that hold the rest of India back.

- The software technology parks created in the early 1990s have helped the sector to blossom – but only because they freed it from the tariffs and high tax rates that still prevent the bulk of Indian industry from competing abroad. Exports grew 130 percent in the 1990s. That is impressive, but in China they grew nearly twice that amount during the decade. And China's stock of foreign direct investment as a share of GDP is eight times higher than India's.

- Like the other labor-intensive services doing well in the new India, these firms have also been less hampered by high levels of public borrowing in India and the dearth of affordable private lending that this creates. India's borrowing requirement absorbed up to 40 percent of Indian national savings last year. And 14 percent of GDP that might have been flowing into its growth industries was instead spent on ill-targeted public subsidies.

- Software firms and data processing companies have also been more able to leap-frog the failings of India's infrastructure: the clogged ports and segmented transportation networks which mean that goods that take 3 hours to ship abroad in Singapore, in India, take 3 days.

Certainly, these new businesses have been blessed by India's tradition of high quality high education. India's pool of trained scientists and engineers, for example, is second only to our own. Yet the same approach that has brought India its high number of graduates has equally built a country in which more than half of women cannot read.

Time and again, we are learning that the highest return investment that a developing country can make in its future is girls' education. But for all its recent progress, India still has a long way to go. Amartya Sen has noted the sobering fact that Indian basic health and education indicators are not merely much lower today than in Korea, Thailand and other East Asian tigers; they are below what these countries had already achieved in 1960.

With the election past and a new government now in place, India has the opportunity to take reforms forward again, so that India may take its rightful place in the 21st century global economy. And in Prime Minister Vajpayee and Finance Minister Sinha, it has leaders who have committed themselves to that goal. In this regard, Finance Minister Sinha's plans to re-engineer the budget; reduce the state's pervasive and costly role in the financial sector; and open up key parts of the economy will be especially important.

India has been able to grow at relatively high rates in recent years, as the crises in Asian and other emerging market economies have rocked the world. I gather there has been some discussion about whether this in some way reflects India's policy of very limited international financial engagement. It seems to me that India's lack of reliance on short-term capital flows, low level of external debt, and small share of trade in the economy have probably all played a role. But when one considers the wealth of economic opportunities in India and the sheer volume of investment that these will require, it seems equally clear that over time, greater involvement in the global capital market will need to play a role.

With a strong commitment to openness, to a more efficient and competitive financial system, and a new role for the state that, in Amartya Sen's terms, works more to complement markets than to exclude them – with all of these things I would fully expect India to be one of the largest economies in the world in less than a generation. As the government recognizes, developing a more sustainable and coherent framework for fiscal relations between the states and the center will be vital to bringing this about. The 6.5 percent growth rate that you have achieved in recent years is impressive. But 10 percent growth is well within your grasp. At that pace, Indian standards of living would be five times higher in 2020 than they are today.

IV. Building the Right International System for More Global Economy

The economic historian, Jeffrey Williamson has reminded us that global integration, once begun, is not predestined to continue. Indeed, important features of today's more international economy were present in the late 19th century as well: capital and labor flowed across national borders to an unprecedented extent, and declining transport costs fueled an explosion in global trade.

In the second decade of the 20th century, this first global economy imploded. Countries embraced autarky and the world entered one of the darkest periods in its history. Opinions differ on why integration was stopped in its tracks. But Williamson is not alone in pinning a good part of the blame on governments – and their failure to find ways to manage integration's broader effects.

At this second moment of historic opportunity, the capacity to enjoy the benefits of truly global integration will depend on the success we have domestically with our economies – because that is what will creates the security that makes global integration possible. But it also depends on the right kind of broader framework in which integration can take place.

In many ways, the challenge is to reconcile three widely shared objectives:

- First, realizing the benefits of trade and integration.

- Second, support of public purpose in areas such as promoting the environment, regulating financial risk, and assuring worker and product safety.

- Third, allowing sovereign governments to make their own choices and put policies in place that will work for them.

The problem of focusing only on trade was learned within our own country in the late 1800s and early 1900s, as inter-state commerce took off and the national economy began to come together. Over time, politicians in both major parties came to recognize that a greater degree of interconnectedness between states also called for common institutions and understandings at the national level – to offset the downward pressure on local rules and standards that competition could create.

At the global level, our agenda is to promote free trade, sovereignty and serious global efforts with respect to common problems. It is easy to pursue any two of these if one is prepared to forget the third. It is easy, for example, to support sovereign pursuit of public purpose if one is prepared to wall out the world. And if countries were willing to give up national sovereignty, one could perhaps imagine a world where there would be the same rules for all.

The challenge we will have to manage – with respect to trade, the environment and many other issues – will be striking the right balance between all three objectives. The difficulties of doing this were pointed up in the recent WTO meetings in Seattle. But the events of the past several years have equally shown us that there can be no alternative if the benefits of global integration are finally to be captured.

Discussions of international integration used to be the preserve of the industrial countries. With the balance of power now shifting, and nearly all of the growth in the world's labor force now taking place in developing countries, it will be especially important to make these nations a larger part of the discussion. This has been reflected in the financial sphere with the creation of the G20, in which India has such an important role. It will doubtless need to be reflected in other areas going forward if this challenge is to be met.

India and the United States, the world's largest and oldest democracies, have an opportunity to work together to shape the terms of this new global engagement in the years ahead. And we must seize it. We should remember your first Prime Minister's famous words of more than half a century ago: "those dreams are for India, but they are also for the world, for all the nations and peoples are too closely knit together today for any one of them to imagine that it can live apart." Thank you.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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January 18, 2000

U.S. International Reserve Position

The Treasury Department today released U.S. reserve assets data for the week ending January 14, 2000.

As indicated in this table, U.S. reserve assets totaled $71,175 million as of January 14, 2000, down from $71,330 million as of January 7, 2000.

In US millions)

	January 7, 2000			January 14, 2000		
. Official U.S. Reserve Assets TOTAL			71,330			71,175
. Foreign Currency Reserves	Euro	Yen	TOTAL	Euro	Yen	TOTAL
a. Securities	5,180	6,103	11,283	5,140	6,063	11,202
Of which, issuer headquartered in the U.S.			0			0
b. Total deposits with:						
b.i. Other central banks and BIS	8,890	11,813	20,703	8,864	11,737	20,600
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
. IMF Reserve Position [2]			17,959			*17,977*
. Special Drawing Rights (SDRs) [2]			10,336			*10,346*
. Gold Stock [3]			11,049			11,049
. 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 January 7, 2000 are final. Data for SDR holdings and the reserve position in the IMF shown as of January 14, 2000 (in italics) reflect preliminary adjustments by the Treasury to the January 7, 2000 IMF data.

3/ Gold stock is valued monthly at $42.2222 per fine troy ounce. Values shown are as of November 30, 1999. The October 31, 1999 value was $11,049 million.

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U.S. International Reserve Position (cont'd)

Predetermined Short-Term Drains on Foreign Currency Assets

	January 7, 2000	January 14, 2000
Foreign currency loans and securities	0	0
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
Other	0	0

. Contingent Short-Term Net Drains on Foreign Currency Assets

	January 7, 2000	January 14, 2000
Contingent liabilities in foreign currency	0	0
.a. Collateral guarantees on debt due within 1 year		
.b. Other contingent liabilities		
Foreign currency securities with embedded options	0	0
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.		
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		

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
January 18, 2000

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Term:	91-Day Bill
Issue Date:	January 20, 2000
Maturity Date:	April 20, 2000
CUSIP Number:	912795DS7

High Rate: 5.350% Investment Rate 1/: 5.512% Price: 98.648

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 76%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 19,466,329	$ 5,976,329
Noncompetitive	1,196,232	1,196,232
PUBLIC SUBTOTAL	20,662,561	7,172,561 2/
Foreign Official Refunded	335,000	335,000
SUBTOTAL	20,997,561	7,507,561
Federal Reserve	4,270,500	4,270,500
Foreign Official Add-On	0	0
TOTAL	$ 25,268,061	$ 11,778,061

Median rate 5.330%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 5.230%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 20,662,561 / 7,172,561 = 2.88

1/ Equivalent coupon-issue yield.
2/ Awards to TREASURY DIRECT = $918,571,000

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
January 18, 2000

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Term:	182-Day Bill
Issue Date:	January 20, 2000
Maturity Date:	July 20, 2000
CUSIP Number:	912795ED9

High Rate: 5.535% Investment Rate 1/: 5.789% Price: 97.202

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 11%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 18,031,475	$ 2,786,233
Noncompetitive	1,095,111	1,095,111
PUBLIC SUBTOTAL	19,126,586	3,881,344 2/
Foreign Official Refunded	2,620,000	2,620,000
SUBTOTAL	21,746,586	6,501,344
Federal Reserve	3,285,000	3,285,000
Foreign Official Add-On	0	0
TOTAL	$ 25,031,586	$ 9,786,344

Median rate 5.520%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 5.440%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 19,126,586 / 3,881,344 = 4.93

1/ Equivalent coupon-issue yield.
2/ Awards to TREASURY DIRECT = $828,134,000

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EMBARGOED UNTIL 2:30 P.M.
January 20, 2000

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 $14,000 million to refund $17,988 million of publicly held securities maturing January 27, 2000, and to pay down about $3,988 million.

In addition to the public holdings, Federal Reserve Banks for their own accounts hold $7,848 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 $3,960 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 $955 million into the 13-week bill and $800 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 JANUARY 27, 2000

January 20, 2000

Offering Amount	$7,500 million	$6,500 million
Description of Offering:		
Term and type of security	91-day bill	182-day bill
CUSIP number	912795 DT 5	912795 EU 1
Auction date	January 24, 2000	January 24, 2000
Issue date	January 27, 2000	January 27, 2000
Maturity date	April 27, 2000	July 27, 2000
Original issue date	April 29, 1999	January 27, 2000
Currently outstanding	$26,110 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.

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EMBARGOED UNTIL 2:30 P.M.
January 20, 2000

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 $14,000 million to refund $17,988 million of publicly held securities maturing January 27, 2000, and to pay down about $3,988 million.

In addition to the public holdings, Federal Reserve Banks for their own accounts hold $7,848 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 $3,960 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 $955 million into the 13-week bill and $800 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 JANUARY 27, 2000

January 20, 2000

Offering Amount	$7,500 million	$6,500 million
Description of Offering:		
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Original issue date	April 29, 1999	January 27, 2000
Currently outstanding	$26,110 million	---
Minimum bid amount and multiples	$1,000	$1,000

The following rules apply to all securities mentioned above:

Submission of Bids:

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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
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FOR IMMEDIATE RELEASE
January 22, 2000

STATEMENT BY TREASURY SECRETARY LAWRENCE H. SUMMERS AT THE POST-G7 PRESS CONFERENCE

Let me begin by saying a few words about today's meeting, and then I will be happy to answer questions.

Our discussion today essentially divided into two parts: our review of global economic conditions and prospects; and the broad agenda for international financial reform.

First: Achieving Sustainable Growth in the Global Economy

With the maintenance of a strongly supportive macro-economic environment, we are now seeing improved prospects for global growth. At the same time, we all recognize that continued improvement is not inevitable, and will depend crucially on proactive policy. At a time of dramatic advances in technology, we must all seize this moment of opportunity to create an environment for strong and more balanced growth across all our economies.

In view of the importance of this point I would like to quote in full the formulation in paragraph three of the Statement:

> "We see improved prospects for non-inflationary growth in the major industrial economies and the world economy as a whole. The challenge remains to secure a more balanced pattern of growth among our economies that is so important to sustaining the expansion. We agreed on the importance of directing both macroeconomic and structural policies in all our countries at this objective, with particular emphasis on taking advantage of the investment opportunities created by new technologies."

As far as exchange rates are concerned, let me quote what we said in the Statement:

> "We discussed developments in our exchange and financial markets. We welcomed the reaffirmation by the Japanese monetary authorities of their intention to conduct

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policies appropriately in view of their concern, which we share, about the potential impact of yen appreciation for the Japanese economy and the world economy. We will continue to monitor developments in exchange markets and cooperate as appropriate."

Let me also note that our policy with respect to the dollar remains unchanged: a strong dollar is in the interest of the United States.

Second: International Financial Reform Going Forward

We also talked about our broad agenda for international financial reform going forward. Let me highlight three areas that are especially important to us:

First, on the reform of the international financial architecture, we have made real progress since our meeting in September, including a successful inaugural meeting of the G-20 Finance Ministers and Central Bank Governors in Berlin in December. Obviously what is most important now is translating the consensus that has been reached into real change: for example, with regard to broader implementation of internationally agreed codes and standards, and working to find the right ways to ensure private sector involvement in forestalling and resolving crises.

In this context, we also agreed on the importance of measures to strengthen the functioning of the IMF to make sure that it is better able to meet the challenges of the 21st century. We agreed that there was a particular need for a greater focus on promoting the flow of information to markets and reducing liquidity and balance sheet vulnerabilities, and a comprehensive review of IMF facilities. In addition, we agreed to expand our discussions to include an examination of how the role of Multilateral Development Banks ought to evolve in a changing global environment.

Second, implementation of the HIPC (Heavily Indebted Poor Country) Initiative. We agreed that countries seeking relief under the Initiative should move quickly to put in place the more participatory process for developing national poverty reduction strategies that we have supported in this context. This will be crucial for meeting the target we set today, of three-quarters of the eligible countries qualifying for relief under this initiative by the end of 2000.

Third, we agreed that a priority for the Summit would be stepping up the international effort to combat financial crime, which poses a growing threat to the credibility and integrity of the international financial system. Especially important will be the Financial Action Task Force (FATF) moving quickly to complete its identification of non-cooperative jurisdictions; greater progress in implementing the OECD Anti-Bribery Convention; and continued IMF and World Bank efforts to strengthen governance and anti-money laundering safeguards in their programs with member countries.

Let me conclude by noting that we all expressed our deep gratitude to Managing Director Camdessus for his thirteen years of valuable service as the IMF's Managing Director and for his contributions to these G-7 meetings.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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Statement of G-7 Finance Ministers and Central Bank Governors
January 22, 2000
Tokyo

1. We, the Finance Ministers of the G-7 countries, the Central Bank Governors of Canada, Japan, the United States, and the United Kingdom, the Euro-11 Presidency, and the President of the European Central Bank, met today with the Managing Director of the International Monetary Fund to review recent developments in the world economy. The Finance Ministers and Central Bank Governors of the G-7 countries reviewed the progress made towards strengthening the international financial architecture and implementing the HIPC Initiative.

2. We expressed our deep gratitude to Mr. Camdessus for his thirteen years of valuable service as the IMF's Managing Director and for his contributions to our meetings.

Developments in the World Economy

3. We see improved prospects for non-inflationary growth in the major industrial economies and the world economy as a whole. The challenge remains to secure a more balanced pattern of growth among our economies that is important to sustaining the expansion. We agreed on the importance of directing both macroeconomic and structural policies in all our countries at this objective, with particular emphasis on taking advantage of the investment opportunities created by new technologies.

4. Open and competitive international markets for trade and investment are essential for efficient global resource allocation, sustainable growth, stability, and shared prosperity. We reaffirm our commitment to achieving further trade liberalization through the launching of a new multilateral trade round at the earliest opportunity.

5. We reemphasized our commitment to maintain or create conditions for sustainable growth in each country. In this context, we stressed the importance of continued cooperation among the G-7 countries.

- In the United States and Canada, economies are showing continued strength, while unemployment and inflation are historically low. The aim of policies now is to preserve conditions conducive to sustainable growth by maintaining strong fiscal conditions, prudent monetary policy, and, in the United States, increasing national saving.

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- In the United Kingdom, growth has strengthened. Labor market activity has remained robust, and interest rates have risen preemptively in recent months in the face of stronger domestic demand. Policies should continue to aim at meeting the inflation target and sustaining growth and employment.

- Recovery of growth is well under way in the euro area. With the unemployment rate falling though still high in many countries, appropriate macroeconomic and structural policies, aimed at strengthening economic growth, increasing employment and expanding investment opportunities, will continue to be important.

- Japan's economy has shown some encouraging signs of recovery, although a sustained recovery remains to be established. In these circumstances, the Japanese authorities are implementing the second supplementary budget and announced FY2000 budget proposal maintaining stimulus to ensure domestic-demand-led growth. They reiterated their intention, in the context of their zero interest rate policy, to provide ample liquidity to ensure that deflationary concerns are dispelled. Measures to further strengthen the financial system and structural reforms will continue to be important.

Exchange Rates

6. We discussed developments in our exchange and financial markets. We welcomed the reaffirmation by the Japanese monetary authorities of their intention to conduct policies appropriately in view of their concern, which we share, about the potential impact of yen appreciation for the Japanese economy and the world economy. We will continue to monitor developments in exchange markets and cooperate as appropriate.

Emerging Market Economies

7. In the emerging market economies, recent economic developments have been generally encouraging, and market sentiment has improved. We welcome the earlier and stronger than expected economic recovery in many Asian nations. Along with appropriate macroeconomic policies, full implementation of reforms in the financial and corporate sectors are crucial preconditions for restoring strong sustainable growth and avoiding future financial instability. In Latin American countries, there are welcome signs of improved economic conditions in the region as a whole. These countries need to persist with sound macroeconomic policies and the deepening of economic reforms, including strengthening of the financial sector, which are essential in paving the way for economic recovery and full restoration of market confidence.

Russia

8. We welcome favorable developments in some areas of the Russian economy, reflecting improved external factors. We urge the Russian authorities to intensify macroeconomic stabilization and economic reforms which are necessary for sustained economic growth. These include enhanced transparency, budgetary and financial accountability, structural and institutional reform, and combating corruption and money laundering.

Strengthening the International Financial and Monetary System

9. We reviewed with satisfaction the progress that has been made since our last meeting in September to strengthen the international financial architecture in line with the G-7 Finance Ministers' Report at the Cologne Summit last June.

- We welcome the steps taken to transform the Interim Committee into the permanent "International Monetary and Financial Committee".

- We note that the first meeting of the G-20 Finance Ministers and Central Bank Governors was successfully held in Berlin in December.

- We look forward to recommendations by the Financial Stability Forum (FSF) this spring on highly-leveraged financial institutions, capital flows, and offshore financial centers. We note that the Task Force on the Implementation of Standards and Codes and the Study Group on Deposit Insurance Schemes were established by the FSF.

- We agree that we must continue to focus on encouraging broader implementation of internationally agreed codes and standards and on monitoring compliance with the IMF assuming a leading role by virtue of its surveillance function.

- We are encouraged by the deepening of discussions being held at the IMF board on wide-ranging issues to strengthen international financial architecture.

We will continue to work to achieve solid progress in implementing the wide range of reforms endorsed at the Cologne Summit, including ways to ensure private sector involvement in forestalling and resolving crisis. We will also continue to work together on measures to strengthen the functioning of the IMF to ensure that its role reflects the changing global financial landscape. In that context, we will examine appropriate measures, including a greater focus on promoting the flow of information to markets and reducing liquidity and balance sheet risks, and a comprehensive review of IMF facilities. We also agreed to consider in our future work the role of Multilateral Development Banks in the context of changing global conditions.

Actions against Abuse of the Global Financial System

10. In order to secure the benefits of the global financial system we must ensure that its credibility and integrity are not undermined by crime, poor regulatory standards and harmful tax competition.

- For the prevention of money laundering, we urge the Financial Action Task Force (FATF) to complete its identification of non-cooperative jurisdictions expeditiously and, in this context, we will coordinate our work with other ministries when appropriate.

- We remain concerned about offshore financial centers and tax havens which undermine international standards of financial regulation and which are shelters to avoid or evade payment of tax. We strongly support the work being done by the FSF and the OECD's

Forum on Harmful Tax Practices, as well as the cooperative efforts of the OECD's Committee on Fiscal Affairs (CFA) and the FATF. We urge the OECD's CFA to bring a rapid conclusion to its work on bank secrecy.

- The benefits and opportunities of the international financial system can also be undermined by corruption. In this regard, we support the work being done in various fora on anti-corruption measures.

- We look forward to the review in the IMF and World Bank on ways to strengthen safeguards on the use of their funds. We expect the international financial institutions (IFIs) to also strengthen governance and anti-money laundering measures in programs with member countries.

- We commit ourselves to tackling these issues, in close coordination with relevant multilateral fora, and will report on the progress at the upcoming Summit meeting.

Enhanced HIPC Initiative

11. We reaffirmed our commitment to the enhanced HIPC (Heavily Indebted Poor Country) Initiative and its speedy implementation. While we welcome the considerable progress made so far, notably in identifying and securing resources for financing of the HIPC Initiative, further steps need to be taken to secure the practical implementation of the Initiative to provide faster, broader and deeper debt relief.

- All IFIs are encouraged to be actively engaged in the Initiative, maximizing the use of their own resources in meeting their costs.

- Some important bilateral financial contributions to the Initiative, including those to the HIPC Trust Fund, still require legislative approval.

- We urge bilateral creditors to take action to deliver their proportional share of debt relief under the Initiative as agreed at the last Annual meetings.

- Countries seeking assistance under the Initiative are urged, in cooperation with the IFIs, to begin the participatory process of developing poverty reduction strategies .in the context of a sound policy framework, with clear monitorable performance targets, including emphasis on transparency, accountability, and good governance.

- We welcome the recent statement of World Bank and IMF that up to eleven countries could benefit from HIPC debt relief by early spring. We urge the IFIs to continue to work with the HIPC countries to ensure that three quarters of the eligible countries have reached their decision point under the Initiative by the end of 2000.

Kyushu-Okinawa Summit

12. We discussed issues to be taken up at the Fukuoka Finance Ministers' Meeting which will be held in July as a part of the Kyushu-Okinawa Summit. These issues may

include, in addition to a follow-up on progress in the reform of the international financial architecture and the HIPC initiative, the opportunities and challenges posed by further advancement of information technology and globalization and their implications for our public policies. We will start preparatory work for the Fukuoka Meeting.

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"THE PRIORITIES FOR UNITED STATES GLOBAL ECONOMIC ENGAGEMENT"
TREASURY SECRETARY LAWRENCE H. SUMMERS
REMARKS TO THE WORLD AFFAIRS COUNCIL
WASHINGTON, DC

Thank you. I would like to reflect today on some of the challenges for American international economic policy over the next several decades.

My remarks start from a fundamental premise: that a world in which countries are integrating is a world that is more likely to be prosperous; is more likely to be a world in which the US current account deficit declines; is more likely to be at peace; and is more likely to be a world of in which democracy continues to extend its reach. Indeed, I would suggest to you that investing in a prosperous global economy is the most effective - and most cost-effective - means of investing in forward defense of American interests.

As President Clinton has said: "a strong economy in a foreign land is not a threat to our jobs, it's a new market for America 's products; an engine of human dignity and environmental preservation; and a partner for peace and freedom and security." We enjoy the benefits in the peace and the spread of our core values that greater global openness can bring. And we see them more directly, in the millions of high-paying jobs that exports create, and the competition and innovation that our openness to imports can produce. These have helped to sustain an expansion in which, nearly 9 years on, long-term interest rates are still well below their level at the start.

There are many ways that we interact with the rest of the global economy. But there are three ways in which our policies and choices have a particularly large impact on the global system.

- First, the way we manage our own example at home, because actions speak louder than words.

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- Second, the approach that we take to the world trading system.

- And third, the approach that we take to the international financial institutions.

I would like briefly to discuss each of these today. But first let me say a few words about the broader context.

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.

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 more successful than it has ever been. And yet, at another critical time in our history, the basic 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.

I. Leading by Example: the Case for More Inclusive Prosperity

Just as the rest of the world's economic strength is our economic strength – so keeping our own economy strong and our markets open makes a significant contribution to global growth. Indeed, the United States has in many ways been the main engine of global growth in recent years. One of the things that we all recognized at the recent meeting of G7 finance ministers in Tokyo was the need to move to a more balanced, and thus more durable, pattern of global growth.

Americans can take satisfaction from the progress that the United States economy has made during the past ten years. It is a tribute to the benefits of economic openness, of competitive markets and also of old-style fiscal virtue. And it surely points up the importance of continuing sound policies going forward, by keeping our markets open, by paying down our public debt, and by avoiding excessive tax cuts that could put future surpluses in doubt.

At the same time, many people over-learned the lessons of Russia in the 1950s, or Japan in the 1980s, in thinking they had found, in a decade's success in a single country, the path to economic wisdom. And none of us should doubt that there are important aspects of our global example of democracy that we must work to strengthen. One of these, which I will discuss in a few moments, is our willingness to pay attention to the prosperity of the rest of the world. The other is our capacity to ensure that every American feels that a new global economy works for them.

In part this is an issue of inequality. After a long period when it was not the case, a rising tide has lifted almost all boats in recent years. Our economic success has created a high-pressure economy where jobs look for people more than people look for jobs – with the result that real incomes are at last rising in every part of the income scale.

And yet, in America today:

- More than 1 in 5 children under the age of six live in poverty. And a child born of a single teenage mother who did not finish high school has an 80 percent chance of living in poverty at the age of ten.

- An African-American child born today is twice as likely to die before his first birthday than a child born in Yugoslavia or Kuwait; and male life expectancy here in DC is several years below that in Mongolia or Belarus.

The feeling of exclusion is also an issue of insecurity. When Robert Kennedy ran for President in 1968, he spoke about it being a new more dynamic economy because the average American entering the workforce could expect to have 4 jobs over the course of their lifetime. Bill Clinton used a similar formulation in 1992, except the number of jobs had risen to 7. And the pace of change can only be increasing.

Increased support for the working poor will be part of the answer. Federal spending on this group was ten times greater last year than it was in 1985 – in large part due to successive increases in the Earned Income Tax Credit. This year the President is asking Congress to expand it further. Equally, improving the quality of our education system and working to meet more effectively the basic needs of our children are and must continue to be high priorities.

In these and other ways, we must seek to address the problem of economic exclusion because it is a moral imperative. It must also be an economic imperative at a time when our social cohesion will be important to our capacity to move forward. In that sense the greatest threat to American security may be domestic insecurity.

II. The Case for Continued United States Support for Open Markets

Nationally and internationally, we must recognize and respond to the difficulties that can attend globalization and the substantial and disproportionate fears that it can generate. What we must not do is lose sight of what logic and hard experience has taught and a large majority in both parties has long believed: that increased global integration benefits the vast majority of the citizens in all our countries.

Today the United States has 4.5 percent of the world's population, and 22 percent of its income. In a very real sense, our capacity to realize our national potential in this new century will depend to no small degree on our capacity to realize the potential of an open global trading system.

Up until recently there was a strong bipartisan consensus in support of this objective – even as they debated how best it might be achieved. In the wake of the debates we have had about NAFTA or Fast Track – and around the recent World Trade Organization meetings in Seattle – the question arises whether that broad-based support for open markets will be sustained. The answer to that question will not come in a single battle that will be won or lost. But a number of upcoming decisions will provide important tests of our capacity to stay on the right track.

One very important test will be whether we vote to grant China Normal Trade Relations (PNTR) in the months ahead, essentially supporting its entry into the WTO. Of course, it is important to ensure in our relations with China that our commercial interests are protected. That was the basis for the bilateral accession agreement we reached with China last November, which provides for very substantial opening of Chinese markets in return for now new market access concessions of our own. The agreement also strengthens our capacity to assure fair trade, through the WTO, while protecting our strong defenses against import surges and dumping from China for some considerable period. But to seek to contain China economically – to keep it poor and to isolate it from our markets – is to see our long-term interests precisely backwards.

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 great a challenge to the United States as their strengths. The WTO provides a framework in which China will economically liberalize. It strengthens the liberal elements in Chinese society. It supports freedom and ultimate political evolution. It incorporates China into the community of nations but does so on the basis of their acceptance of the rules of the road.

A second very important test will be our capacity finally to pass the African Growth and Opportunity Act and the enhanced Caribbean Basin Initiative. 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 600 million people live, nearly half on incomes of less than one dollar a day. What is true in Africa is also true much closer to home, in the Caribbean. The right trade preferences for the Caribbean will help make their economies much stronger and our economy safer.

At the global level, our agenda going forward must be to promote free trade and serious global efforts with respect to common problems, even as we support every nation's right to chart its own course. The challenge we will have to manage – with respect to trade, labor, the environment and other issues – will be striking the right balance between all these objectives. The difficulties of doing this were pointed up in the recent WTO meetings in Seattle. But the events of the past several years have equally shown us that there can be no alternative if the benefits of global integration are finally to be captured. If globalization does not work for everyone it will ultimately not work at all.

III. The Case for Sustained Support for the International Financial System

We always – and rightly – tend to respond to and focus on the problems with names, such as Kosovo 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 international financial institutions, our support for open markets, and our support for strong policy are so important.

With our management of the end of the Cold War, the United States defense budget is $107 billion lower in real terms today than it was in 1989. 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 was passed in last year's budget agreement appropriated $15.2 billion in FY 2000 for such investments. That is 20 percent less, in real terms, than was spent on average under Presidents Reagan and Bush. In the coming weeks the President will be proposing an energetic budget with respect to these international priorities, because they represent 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, these programs are the most effective tools we have for investing in the markets of tomorrow. They 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 new threats such as AIDS, which is devastating Africa and now threatens to undermine decades of economic development in Asia.

Let me highlight one area where our support will be especially important this year: implementing the strengthened HIPC initiative.

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 Highly Indebted Poor Countries initiative is about. It will not write off the debts of countries that are not working to reform. It will help support growth and openness in countries that are committed to helping themselves.

With the bipartisan support for HIPC that was reflected in last year's budget agreement, the strengthened HIPC initiative agreed at last year's G7 Summit in Cologne is now moving ahead. Bolivia, Uganda and Mauritania should benefit in a matter of days, with up to 11 countries likely to receive relief 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 - and working here in the United States to ensure that our commitment to this effort can be fully funded.

IV. The Roots of Domestic Distrust of International Engagement

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, any wavering in the United States' faith in the benefits of global engagement could reduce the world's faith in us, and so undermine our capacity to lead.

I have tried to reflect on why, when the security benefits are so compelling and the economic benefits so clear, it can be difficult to make the case for open trade and broader economic integration in America today. Several 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.

In democracies, fear does the work of reason. And today's threats – of rising impoverishment overseas – do not have the same emergency character that previous threats have had. Yet we saw in the 1920s what could happen when we shunned cooperation and turned inward, at a time of great national strength. That is the danger we must work to avoid today, just as a generation of 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.

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 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.

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"Extending the Frontier of Capital"
Remarks by Lawrence H. Summers
Secretary of the Treasury
CDFI Coalition
Washington, DC
January 27, 2000

Good morning. I'd like to take this opportunity to thank all of you for the vital work you are doing in helping to fight social and economic exclusion in communities around the country. We hear a lot – and we quite rightly focus a lot – on the fact that that we about to pass an historic milestone in achieving a record period of unbroken economic expansion in this country. But this must not and will not distract us from the challenge of ensuring that more Americans are included.

Our macro-economic success during the past decade will not be my main focus this morning. But let me make two broad comments:

- Without economic growth we cannot hope to reduce significantly the levels of poverty that persist in too many of our urban centers and deprived rural areas. In the past few years we have made genuine progress in reducing poverty – in large part because of the spectacular performance of our economy. Growth, in that sense, is the best social policy we have.

- However – and this is equally important - economic growth, on its own, will not be enough to prevent certain areas from being left behind. In that sense, growth is a necessary condition for defeating poverty. But it is very far from being a sufficient one.

What can we do to channel the benefits of growth to the communities that have previously been excluded? The challenge is to give people the means to help themselves. And here, we at Treasury believe that expanded access to capital can play a vital role. As the First Lady says, it takes a village to raise a child. She's right. And it takes capital to build a successful village.

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

This will be a many-sided effort. Let me just highlight three that have been a particularly high priority at the Treasury Department:

- First, universalizing access to capital.

- Second, supporting economic development across the country.

- And third, broadening access to financial services.

I. Universalizing Access to Capital

Each century brings its own challenges of inclusion. The challenges of the 20th century were universalizing access to the vote, to education, to electricity and to running water. The challenges of this new century include universalizing access to information technology, and something that we at Treasury are especially concerned with, universalizing access to finance.

Providing better access to finance is good economics when it goes to those who can use it most well:

- A recent survey of projects and businesses that benefited from Community Development Financial Institutions Fund investments in 1996 shows that the average value of their assets more than doubled since the initial investment. There are many in the Fortune 500 that would dream about seeing that kind of rate of return.

- On a more personal note, a while ago I visited a business in Philadelphia called PWRT ComServ that was set up by a minority businessman with the help of public sector seed capital. Within two years of its launch, the business, which out-sources electronic tasks from Fortune 500 companies, was already servicing Bell Atlantic and American Express. Every dollar provided by CDFIs raised four dollars more in private venture capital.

- My first visit as Treasury secretary last year was to the Harlem, USA project, a major retail and entertainment center on 125th Street being built, among others, with the help of CRA. Although it has a population the same size as Cincinnati, there had been no a major retail development in Harlem since the second world war. Until recently, there has not even been a supermarket in the area. And the taxpayer will not go unrewarded. By conservative estimates, Harlem, USA will repay the public funding for the project in additional New York sales tax revenues in just nine months.

And it makes a difference on a human level as well. When I visited that project that has been so successful in Philadelphia, I talked to a working mother who was now a telephonist for PWRT ComServ. I asked her what has been the most important thing about the project for her. She said that now when her children looked at her, they had pride in their eyes. Their house was happier, their bills were easier to pay, and her children were doing better in school. All because she had a job.

Creating many more examples like these ones has been and continues to be a major priority for this Administration. For example, earlier this month I joined the First Lady and the Reverend Jesse Jackson in voicing the Treasury's strong support for the objectives of the Rainbow-Push Wall Street Project conference, which aims to increase the participation of minorities and the socially excluded in the mainstream economy.

We want to push out the frontiers of capital access even further in the future:

- That is why we have fought to protect and to strengthen the Community Reinvestment Act, to help channel billions more in conventional bank lending to inner city and other deprived areas. Last year alone, a revitalized CRA generated $88bn in private investments for home ownership and small businesses in disadvantaged communities.

- And that is why we are pushing for Congress to reauthorize the CDFI Fund and support President Clinton's request for $125m in new funding for the CDFI in FY 2001 – some $30m more than last year. Since its birth more than five years ago, the fund has invested more than $300m in projects and communities around the country leveraging several billion dollars worth of private sector investment. Many of these projects have acted as beacons for strategies that have subsequently been launched solely with private sector capital. Time and again, CDFIs are teaching us that seed capital that is well planted in these communities will spread and it will multiply.

II. Supporting Economic Development Across the Country.

Our economic success has created an environment where jobs look for people more than people look for jobs. And by bringing access to capital to the areas that businesses tend to overlook, we have worked to ensure that every part of America is included in the nation's economic success. At the same time, we have learned that success in this effort is about more than expanding the capacity to borrow money. Enhanced access to capital is only useful if people have the tools and skills to use that capital well: notably, equity and the kind of technical expertise and business networks that firms in the mainstream economy take for granted.

That is why the President launched his New Markets Initiative last year, to unlock the potential of America's inner cities and rural areas. This initiative includes a New Markets Tax Credit, providing a 25 percent tax credit for equity investment in locally based, specialized financial institutions that will in turn invest in local businesses. As you know, last week the President announced his proposal for a major expansion of the New Markets Tax Credit to $4.5 billion for the FY2001 budget. In turn, the funds would be permitted to issue $15 billion in equity over five years or 2.5 times the size of last year's initiative.

And that is also why, through BusinessLINC, led by Vice President Al Gore, we are encouraging businesses throughout the nation to take a second look at opportunities for partnering with firms in inner cities and rural areas. And experience suggests that BusinessLINC strategies can also be good for both sides, providing large firms with a new partner, an agile source of products and an entree into new markets in an increasingly diverse and global consumer market.

III. Broadening Access to Financial Services

When we think about finance in this context we need also to think about financial services for individuals. Like money itself, the benefits that a bank account provides are easy to take for granted. Until you do not have one. And today, in the age of the Internet, derivatives, and embedded options, as many as one in five American households still lack that basic passport to the broader economy. This is roughly equivalent to the population of Spain.

Without access to a checking account, the individual is deprived of the most basic link to the mainstream economy. A recent survey showed that almost half of EITC recipients used a check-cashing service to cash their refund benefits. And estimates suggest that the costs over a lifetime for low and middle-income families of paying fees for every check or bill payment can exceed $15,000. But these are just the surface costs. Imagine trying to start a small business without access to a deposit or knowledge of the services that banks can offer.

In the months ahead we will be fighting to broaden access to financial services in several ways:

- By working to passing the President's new initiative – *First Accounts* – to bring the "unbanked" into the financial mainstream. The President's upcoming budget will include $30 million for this initiative, to finance pilot strategies to help low- and moderate-income Americans benefit from the basic financial services that most of us take so much for granted.

- By expanding the Electronic Transfer Account, which enables recipients of Federal Benefits to open an account for the first time. More than 300 banks are taking part in a scheme that will benefit both those who are opening their first account – and the banks themselves.

- By working to provide safe and easy access to banking services within previously under-served communities. At the Treasury we have established a pilot program to place ATMs in local post offices. This will give families access to funds at a low cost, and with less fear for their safety.

- And by encouraging states to help families that are making the transition from welfare to work to open bank accounts, or Individual Development Accounts. We are also encouraging states to educate Americans about the importance of financial literacy and building wealth through savings.

Under the Bank Enterprise Award, the CDFI has granted almost $80m of funds to banks for increasing their investment strategies. It gives me great pleasure to report that the scheme, which has already helped to encourage more than $1bn in investments, has attracted almost three times as many applicants this year as when it was launched. But just as Treasury has provided incentives for banks to create assets where none existed before, by lending to start-up businesses in deprived areas, so we want to give banks equally strong incentives to create liabilities in socially excluded areas. That is to say, we also want to give banks stronger incentives to open checking accounts in areas that are traditionally "under-banked". I am asking he the CDFI Fund to look at ways of strengthening incentives in this area in the future.

IV. Concluding Remarks

Let me conclude where I began. Too many people, perhaps, see little connection between the goal of maintaining rapid economic growth rates, on the one hand – and the drive to push back the frontiers of social exclusion on the other. That could not be more wrong.

In a high-pressure economy, we all have a stake in including more Americans in the productive enterprise of the nation. Because every new member of the active labor force represents a reduction in potential inflationary threats – and a greater scope for continued sustainable growth So fighting against social deprivation is both a moral imperative, and an economic imperative. With the initiatives that I have discussed, and the commitment of the people in this room and the organizations that you represent, I am confident we can continue to make real progress. Thank you.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

EMBARGOED UNTIL 10:00 AM EST
Text As Prepared for Delivery
January 27, 2000

TREASURY TAX LEGISLATIVE COUNSEL JOSEPH MIKRUT TESTIMONY BEFORE THE HOUSE WAYS AND MEANS SUBCOMMITTEE ON OVERSIGHT

Mr Chairman, Ranking Member Coyne, and distinguished Members of the Subcommittee.

I appreciate the opportunity to discuss with you today the Department of Treasury's study and recommendations with respect to the penalty and interest provisions of the Internal Revenue Code of 1986.

The study conducted by Treasury and its report issued on October 25, 1999 were mandated by the Section 3801 of the Internal Revenue Service Restructuring and Reform Act of 1998 (RRA98) The study was to review the administration and implementation of those provisions and make appropriate legislative and administrative recommendations. On July 1, 1999, the Treasury Department issued *The Problem of Corporate Tax Shelters: Discussion, Analysis, and Legislative* Proposals, a white paper that made a number of recommendations, including with respect to certain penalties, to address the problem of corporate tax shelters. Those recommendations were incorporated by reference into the October penalty and interest report, and were the subject of a hearing in November in the full Committee.

In General

As stated in its report, Treasury focused its penalty and interest study on the principal civil penalty provisions that affect large numbers of taxpayers and account for the majority of penalty assessments and abatements. In evaluating these penalties, Treasury was mindful that achieving a fair and effective system of compliance involves striking a balance that (i) fosters and maintains the high degree of voluntary compliance among the vast majority of taxpayers, (ii) encourages taxpayers who are not compliant to expeditiously resolve noncompliance problems with the IRS, and (iii) imposes an adequate system of sanctions that are fair to taxpayers whose noncompliance may be due to diverse causes that involve different degrees of culpability, but do not impose substantial additional complexity or burden. Achieving such a balance is inherently difficult because a system of sanctions that is calibrated to account for these differences may be

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complex, but a system that does not make adequate distinctions may be unfair. There is no perfect system of sanctions and striking the appropriate balance inherently involves tradeoffs among competing concerns The issue of penalties is one that often strikes an emotional chord, particularly with respect to penalties with their attendant normative overtones. At the same time, compliant taxpayers – the vast majority of taxpayers -- deserve a tax system that recognizes their compliance. Although a penalty regime should not be overly harsh to noncompliant taxpayers whose noncompliance may not reflect deliberate flouting of the tax laws, it is equally true that the currently high compliance level should not be discouraged. Treasury's study and recommendations reflect an effort to strike a reasonable balance, understanding that there is no single solution and different approaches can be formulated to achieve the same goals.

Treasury also examined the respective roles of penalties and interest in our tax system, with a view toward maintaining an appropriate distinction between penalties as sanctions for noncompliant conduct and interest as a charge for the use or forbearance of money. Treasury recognizes that current law does not always make a clear or consistent distinction between interest and penalties, but believes that this distinction is important both with respect to taxpayer perception of the amounts they are required to pay and the underlying reasons for the imposition, the desired deterrent effects, and the corollary consequences of the characterization of the payment. The distinction between penalties and interest has particular consequence for the statutory provisions that permit abatement of those impositions. Penalties generally can be abated for reasonable cause and other statutorily-prescribed reasons that reflect their function as a sanction, that is, as a deterrent to noncompliant conduct. By contrast, the grounds for abatement of interest traditionally have been more narrowly drawn because interest is a charge for the use or forbearance of money. To the extent that current-law penalties are converted to interest charges or interest becomes a more dominant mechanism for dealing with arrears in payment, important corollary consequences, such as interest deductibility or interest abatement provisions, must be considered In general, Treasury's position is that interest should remain principally a charge for the use or forbearance of money and should be set at a rate that approximates market rates. Although there are penalties in the Code that have attributes of an interest charge and whose legislative origins support that characterization, these penalties also function as sanctions. Treasury is particularly concerned that conversion of certain penalties to interest, even if supportable on analytical grounds, may involve a correlative blurring of the distinctions that have been drawn in the Code between penalty and interest abatement provisions. If that distinction is blurred, it may cause further confusion among taxpayers regarding the distinction between penalties and interest

Treasury also is mindful of the ongoing IRS reorganization and implementation aspects of the new taxpayer right provisions of RRA 1998. Considerable guidance has been issued by Treasury in the past year relating to a number of these new provisions and the IRS is engaged in a major overhaul of its structure and systems as directed by Congress Time is required for the impact of these new provisions to be evaluated and certain of the new provisions affect IRS programs, such as the offer-in-compromise program. that provide avenues other than abatement for relief from monetary impositions

Specific Recommendations

In its report, Treasury made a number of specific legislative recommendations, which are described below

Penalties for Failure to File and Failure to Pay

Treasury recommends that the failure to file and failure to pay penalties be restructured to eliminate the frontloading of the failure to file penalty and to impose a higher failure to pay penalty than under current law. The frontloading of the failure to file penalty under current law in the first five months of a filing delinquency does not provide a continuing incentive to correct filing failures and imposes additional financial burden on taxpayers whose filing lapse may be coupled with payment difficulties so as to impede compliance. The filing obligation is of paramount importance to the tax system, but imposition of a severe penalty in the first five months of a filing delinquency appears incongruent with the availability of automatic extensions of time to file. Treasury proposes, accordingly, that the failure to file penalty be restructured to impose a lower penalty rate over a longer period of time, up to the current-law maximum amount. The current-law higher penalty for fraudulent failures to file, however, would be maintained. This proposal would maintain a failure to file penalty to encourage timely filing, but not impose as significant a financial burden as under current law for a filing lapse of short duration, while providing a continuing incentive for delinquent filers to correct a filing lapse of longer duration.

The failure to pay penalty should provide appropriate incentives to taxpayers to correct a payment delinquency and, if necessary, arrange for payment under various payment programs that the IRS makes available. A taxpayer who fails to make such arrangements in a timely manner should be subject to a higher penalty rate than that provided under current law. Treasury proposes, accordingly, that the failure to pay penalty be restructured to accomplish these purposes by imposing a penalty at the current rate of 0.5 percent per month for the first six months of a payment delinquency. The penalty rate would be raised to one percent per month for continuing payment delinquencies after the sixth month to provide an additional incentive to pay an outstanding tax liability. As under current law, the maximum penalty would be 25 percent. These penalty rates would be reduced if taxpayers make, and adhere to, arrangements with the IRS for payment. The failure to pay penalty would not be coordinated, as under current law, with the failure to file penalty to recognize that each form of delinquency is a separate act of noncompliance. More specifically, these recommendations would:

(1) Restructure the failure to file penalty to impose a penalty of 0.5 percent per month of the net amount due for the first six months of a delinquency in filing tax returns, which penalty rate will be increased to one percent per month thereafter, up to a maximum 25 percent. This restructured penalty would eliminate the current-law frontloading of the penalty into the first five months of a filing delinquency, providing a continuing incentive for delinquent filers to correct their filing delinquency over longer periods of time. The maximum penalty of 25 percent is the same as under current law. As under current law, fraudulent

failures to file would be penalized at a higher penalty rate of 15 percent per month, up to a maximum of 75 percent.

(2) Restructure the failure to pay penalty to impose a penalty of 0.5 percent per month of the net amount due for the first six months of a payment delinquency, which rate would be increased to one percent per month thereafter, up to a maximum 25 percent. The penalty rate would be decreased from 0.5 percent to 0.25 percent per month if the taxpayer, within six months, enters into a payment arrangement with the IRS to which the taxpayer adheres. Likewise, the one-percent penalty rate would be reduced to 0.5 percent if the taxpayer, after the lapse of six months, enters into a payment arrangement with the IRS to which the taxpayer adheres.

Treasury also recommends that consideration be given to charging a fee, in the nature of a service charge, for late filing of "refund due" or "zero balance" returns. Presently, the failure to file penalty is imposed if a balance is due with the return but is not imposed if tax is not owed as a result, for example, of overwithholding. The importance of the filing obligation and the IRS administrative costs associated with nonfiling may warrant imposition of a fee for late-filed returns to encourage timely filing even if no balance is due with the return, at least after the IRS has contacted the nonfiling taxpayer.

Consideration also can be given to permitting the IRS to utilize a fixed interest rate for installment agreements to avoid the incurrence by a taxpayer who has made the required installment payments of a balloon payment at the end of the agreement.

Penalties for Failure to Pay Estimated Tax

Treasury recommends that the current-law addition to tax for failure to pay estimated tax remain treated as a penalty. Treasury recognizes that the current sanction has attributes of interest and of a penalty. The ancillary effects, however, of converting the sanction to an interest charge do not warrant such a change. Conversion to an interest charge may mean that existing statutory waiver provisions are inappropriate. Conversion to interest also would permit corporations to deduct the payment of such sanction.

In recognition, however, of the potentially cumbersome nature of complying with the estimated tax payment requirements, the following simplifying changes are recommended for consideration:

(1) Individuals should not be subject to estimated tax penalties if the balance due with their returns is less than $1,000. Thus, estimated tax payments should be included in the calculation of the $1,000 threshold, but Treasury recommends this change under a simplified averaging method that would preclude taxpayers from satisfying the threshold by concentrating estimated tax payments in later installments.

(2) A reasonable cause waiver from penalty should be permitted for individuals who are first-time estimated taxpayers, provided the balance due on the tax return is below a threshold amount and is paid with a timely filed return.

(3) Penalty waiver should be provided for individual estimated tax penalties below a de minimis amount, in the range of $10 to $20

Penalty for Failure to Deposit

Treasury recommends that few immediate changes be made to the deposit rules or penalties at this time to provide a sufficient period of time for changes to the deposit rules enacted by RRA 1998 to take effect. However, the penalty for failure to use the correct deposit method should be reduced . The current-law 10-percent penalty is too severe for this type of error.

Treasury also recommends that, in cases where depositors miss a deposit deadline by only one banking day, consideration be given to a reduction in the current penalty rate of two percent to a lower amount, but above an interest charge for a one-day delay.

Accuracy-Related and Preparer Penalties

The minimum accuracy standards, for disclosed and nondisclosed tax return positions, should be modified to impose the same standards on taxpayers and tax return preparers A significant proportion of taxpayers rely on paid preparers. Such professionals have dual responsibilities to their client/taxpayers and to the integrity of the tax system and should be expected to be knowledgeable and diligent in applying the Federal tax laws

The minimum accuracy standards should be raised to require a "realistic possibility of success on the merits" for a disclosed tax return position and "substantial authority" for an undisclosed return position. The standards for tax shelter items of noncorporate taxpayers should be higher In the case of disclosed positions, substantial authority and a reasonable and good faith belief that the position had a "more likely than not" chance of success should be required. For undisclosed positions, substantial authority should be accompanied by a reasonable and good faith belief based upon a higher standard of accuracy than the "more likely than not" chance of success standard. The proposed changes in the accuracy standards would reduce the number of accuracy standards, impose minimum standards that are higher than current law litigating standards to discourage aggressive tax reporting, and eliminate divergence between the standards applicable to taxpayers and tax preparers

Treasury further recommends consideration of better harmonization of the substantial understatement and negligence penalties In many cases, the standards applicable to the substantial understatement penalty may subsume the negligence standards. It may be appropriate to consider whether the negligence penalty should relate only to understatements that do not satisfy the "substantiality" requirement.

In determining the amount of the preparer penalty, consideration should be given to a fee-based or other approach to more closely correlate the preparer penalty to the amount of the underlying understatement of tax, rather than the current-law flat dollar penalty amount.

Finally, Treasury also recommends enactment of the Administration's Budget proposals that would address penalties applicable to corporate tax shelters and the determination of "substantiality" for large corporate underpayments.

Penalty for Filing a Frivolous Return

The current-law penalty for filing a frivolous tax return should be raised from $500 to $1,500, but the IRS should abate the penalty for a first-time occurrence if a nonfrivolous return is filed within a reasonable period of time. This penalty amount was last raised in 1982 and significant numbers of such penalties are assessed This approach will help bring taxpayers who file frivolous returns into better compliance.

Failures to File Certain Information Returns With Respect to Employee Benefit Plans

Several penalties currently apply to a qualified retirement plan's failure to file IRS Form 5500 These penalties should be consolidated into a single penalty not in excess of a monetary amount per day and not to exceed a monetary cap per return. This penalty would be waived upon a showing of reasonable cause. Welfare and fringe benefit plans should be subject to a similar single penalty

Penalty and Interest Abatement

Interest Abatement

Abatement of interest in situations where taxpayers have reasonably relied on erroneous written advice of IRS personnel should be available. Treasury does not recommend further legislative expansion of the provisions permitting abatement of interest A distinction exists between the imposition of interest as a charge for the use of money and penalties as sanctions for noncompliance. Because of this distinction, abatement of interest should be allowed in more limited circumstances than for penalties and generally restricted to circumstances where the IRS may be at fault or where serious circumstances outside the taxpayer's control result in payment delays. Current law provisions permitting abatement in circumstances of unreasonable IRS error or delay and in certain other prescribed circumstances provide sufficient scope for interest abatement at this time. In addition, taxpayers have recourse to other mechanisms for mitigation of interest and penalties, such as the offer-in-compromise program, which are in the early stages of implementing changes after enactment by RRA 1998

Consideration of any modification of the current law monetary limitation on mandatory interest abatement in cases of erroneous refunds should be coupled with consideration of whether the IRS has adequate means under current law to recover erroneous refunds Procedural impediments exist with regard to the recovery of erroneous refunds by assessment in all cases and litigation is required in some circumstances

Penalty Abatement

Other than as described above, Treasury recommends that the IRS implement administrative improvements to ensure greater consistency in the application of penalty abatement criteria and enhanced quality review of penalty abatement decisions.

Interest Provisions

The underpayment interest rate (other than the "hot interest" rate) should be a uniform rate determined by appropriate market rates of interest. Treasury recognizes that no single rate is the appropriate market rate for all taxpayers but concludes that, for reasons of fairness and administrability, a single rate generally should apply to underpayments of tax. The appropriate rate should be in the range of the Applicable Federal Rate (AFR) plus two to five percentage points to reflect an average market rate for unsecured loans.

The existing rate differentials between the underpayment and overpayment rates for corporate underpayments and overpayments, including the "hot interest" rate on large corporate underpayments, should be retained. Because of the recent enactment of global interest netting rules, it is premature to eliminate existing rate differentials.

Treasury does not support an exclusion from income for overpayment interest paid to individuals. The legislative policy precluding deductions of consumer interest does not warrant such a change.

Conclusion

Treasury strongly supports a penalty and interest regime that fosters and maintains the current high level of compliance, provides appropriate costs and sanctions for noncompliance, and provides a reasonable and administrable degree of latitude for individual taxpayer circumstances and errors.

The proposals made in Treasury's report strike an appropriate balance among these objectives. The failure to file and failure to pay penalty would be restructured to provide appropriate sanctions without undue burden on taxpayers and with incentives for taxpayers to address payment difficulties with the IRS expeditiously. The proposals made with regard to estimated tax and deposit penalties are intended to address complexity and mitigate unintentional errors while recognizing the importance of the estimated tax and deposit rules to our "pay-as-you-go" tax system. The recommendations with respect to the accuracy and preparer penalties recognize the importance of our self-assessment system, the damage to taxpayer perceptions of fairness as a result of overly aggressive tax reporting by some taxpayers, and the importance of preparers and other practitioners in protecting the integrity of the tax system. Treasury's recommendations regarding penalty and interest abatement preserve the distinction between penalties and interest while providing latitude for mitigation in appropriate circumstances. Treasury's recommendation that current interest differentials be maintained with respect to corporate underpayments and overpayments is grounded in marketplace differences between borrowing and lending rates and reducing incentives for delayed payment of large corporate underpayments or incurrence of large corporate overpayments. The new global interest netting rules also are in the process of implementation and time is required to evaluate their efficacy.

Finally, consideration of any legislative change in the current penalty and interest regime must take into account: 1) behavioral impact of significant change cannot be predicted with precision, and 2) the ability of the IRS to administer the new rules in a timely and equitable manner.

This concludes my prepared remarks. We look forward to working with you, Mr. Chairman, and members of the Subcommittee and full Committee in further developing these and any other legislative proposals in this area. I would be pleased to respond to your questions.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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U.S. International Reserve Position

January 27, 2000

The Treasury Department today released U.S. reserve assets data for the week ending January 21, 2000.

As indicated in this table, U.S. reserve assets totaled $71,132 million as of January 21, 2000, up from $70,993 million as of January 14, 1999.

(in US millions)

I. Official U.S. Reserve Assets	January 14, 2000			January 21, 2000		
TOTAL	70,993			71,132		
	Euro	Yen	TOTAL	Euro	Yen	TOTAL
1. Foreign Currency Reserves [1]						
a. Securities	5,094	6,063	11,156	5,078	6,115	11,193
Of which, issuer headquartered in the U.S.			0			0
b. Total deposits with:						
b.i. Other central banks and BIS	8,751	11,737	20,488	8,732	11,838	20,570
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]			17,965			[illegible]
3. Special Drawing Rights (SDRs) [2]			10,336			10,343
4. Gold Stock [3]			11,048			[illegible]
5. Other Reserve Assets			0			[illegible]

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.

NOTE: Data for January 14, 2000 is corrected data.

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 January 14, 1999 are final. Data for SDR holdings and the reserve position in the IMF shown as of January 21, 2000 (in italics) reflect preliminary adjustments by the Treasury to the January 14, 2000 IMF data.

3/ Gold stock is valued monthly at $42.2222 per fine troy ounce. Values shown are as of December 31, 1999. The November 30, 1999 value was $11,049 million.

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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
'anuary 24, 2000

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Term:	91-Day Bill
Issue Date:	January 27, 2000
Maturity Date:	April 27, 2000
CUSIP Number:	912795DT5

High Rate: 5.385% Investment Rate 1/: 5.549% Price: 98.639

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 49%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 21,968,053	$ 5,701,303
Noncompetitive	1,308,807	1,308,807
PUBLIC SUBTOTAL	23,276,860	7,010,110 2/
Foreign Official Refunded	497,100	497,100
SUBTOTAL	23,773,960	7,507,210
Federal Reserve	4,657,815	4,657,815
Foreign Official Add-On	0	0
TOTAL	$ 28,431,775	$ 12,165,025

Median rate 5.370%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 5.280%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 23,276,860 / 7,010,110 = 3.32

1/ Equivalent coupon-issue yield.
2/ Awards to TREASURY DIRECT = $1,034,217,000

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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
anuary 24, 2000

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Term:	182-Day Bill
Issue Date:	January 27, 2000
Maturity Date:	July 27, 2000
CUSIP Number:	912795EU1

High Rate: 5.520% Investment Rate 1/: 5.774% Price: 97.209

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 23%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 18,319,170	$ 2,372,670
Noncompetitive	1,130,918	1,130,918
PUBLIC SUBTOTAL	19,450,088	3,503,588 2/
Foreign Official Refunded	2,998,300	2,998,300
SUBTOTAL	22,448,388	6,501,888
Federal Reserve	3,190,000	3,190,000
Foreign Official Add-On	0	0
TOTAL	$ 25,638,388	$ 9,691,888

Median rate 5.500%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 5.450%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 19,450,088 / 3,503,588 = 5.55

1/ Equivalent coupon-issue yield.
2/ Awards to TREASURY DIRECT = $853,532,000

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED UNTIL 2:30 P.M.
January 27, 2000

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 $24,000 million to refund $28,483 million of publicly held securities maturing February 3, 2000, and to pay down about $4,483 million.

In addition to the public holdings, Federal Reserve Banks for their own accounts hold $13,993 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 $6,447 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 $6,447 million maturing bills held by foreign and international monetary authorities, $1,483 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 $1,052 million into the 13-week bill, $796 million into the 26-week bill, and $609 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 FEBRUARY 3, 2000

January 27, 2000

Offering Amount	$7,500 million	$6,500 million	$10,000 million
Description of Offering:			
Term and type of security	91-day bill	182-day bill	364-day bill
CUSIP number	912795 DU 2	912795 EV 9	912795 FR 7
Auction date	January 31, 2000	January 31, 2000	February 1, 2000
Issue date	February 3, 2000	February 3, 2000	February 3, 2000
Maturity date	May 4, 2000	August 3, 2000	February 1, 2001
Original issue date	November 4, 1999	February 3, 2000	February 3, 2000
Currently outstanding	$13,082 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.

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
January 28, 2000

REMARKS BY TREASURY SECRETARY LAWRENCE H. SUMMERS BEFORE THE U.S. CONFERENCE OF MAYORS "BUILDING SAFER, MORE PROSPEROUS AMERICAN CITIES"

Thank you, I am glad to be here today. I want to talk, first, about the importance of America's big cities and what has happened in our inner cities in these years of strong national performance. I would then like to touch on two issues that are especially important to cities: our approach to economic empowerment, and guns.

I. The Burden that American Cities Carry

The possibility of a nation rides to a great degree on the possibility of its cities. Cities are where people come together, create ideas, put those ideas into practice and take human achievement to its limits. Cities work for America – we cannot imagine the economic success of this nation without our cities. So America has to work for its cities.

But inner cities also carry a disproportionate amount of America's responsibilities. They are home to more than their fair share of difficult to educate children; more than their fair share of people on welfare; and attract more than their fair share of those with nowhere else to go.

Because poverty is disproportionately concentrated in our big cities, the cities are compelled to spend more of their own resources per head to combat poverty than smaller cities – this imposes a much higher tax burden on the mid-income residents of most big cities and acts as an incentive for them to move out to the suburbs.

The best news for cities in America's economic success is that it has created an environment where jobs look for people more than people look for jobs. That benefits most the people who would usually be last in the line. But it is not enough. Although their economies have grown over the last decade, cities have not kept pace with the rest of the nation.

- One in five residents of our big cities lives below poverty compared to one in seven in the nation as a whole. Philadelphia County, for example, is home to only 12 percent of Pennsylvanians – but nearly half of its welfare recipients.

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- In 1996, almost 1 in 5 urban children was "at risk" of poor economic outcomes as an adult – that is twice the number at risk in the suburbs – and fifty percent more than in 1976.

- Big cities carry a much heavier share of the fiscal burden. In 1992 large cities raised more than $1,200 in municipal revenues and spend almost $400 of this per capita on health. Smaller cities spent just $40 per head on health or less than 10 per cent of their own revenues. [Gyourko and Summers]

II. A New Approach to Economic Empowerment and Inclusion

We are committed to bringing economic development to all of America's cities. This has to be a moral imperative of the highest order. It is also a national economic imperative: because in a high-pressure economy, everyone that is brought into the productive enterprise of the nation marks a reduction in inflationary threats.

Central to our efforts to support economic development in cities has been the idea of expanding access to capital. The First Lady likes to say that it takes a village to raise a child. She's right. And it takes capital to build a successful village.

Expanding access to capital

Traditionally and importantly the question of access to capital has been about debt and the provision of loans. We have continued to built on that tradition in recent years: with a revitalized Community Reinvestment Act, which last year resulted in some $88 billion in private capital flowing into community lending; and with the creation of the Community Development Financial Institutions Fund, which has provided more than $300m to local financial institutions since 1996, a sum that has been leveraged many times over in additional private investment.

At the same time, we have learned that there can be more important barriers to attracting or creating businesses in our disadvantaged communities. Notably, lack of access to equity and lack of the kind of technical expertise business networks that firms in the mainstream economy take for granted.

- That is why the President launched his New Markets Initiative last year, to unlock the potential of America's inner cities and rural areas at a time when the purchasing power of these communities is estimated to approach $700 billion. This initiative includes a New Markets Tax Credit, providing a 25 percent tax credit for equity investment in local, specialized financial institutions that will then invest in local businesses. As you know, last week the President announced his proposal for a major expansion of the New Markets Tax Credit to $5 billion for the FY2001 budget.

- And that is also why, through BusinessLINC, led by Vice President Al Gore, we are encouraging businesses throughout the nation to take a second look at opportunities for partnering with firms in inner cities and rural areas.

In addition, to ensure that our nation's urban areas have the special support they need, we have proposed:

- Allowing State and local governments to issue Better America Bonds, tax credit bonds – similar to the current Qualified Zone Academy Bonds – to finance projects to protect open spaces or otherwise to improve the environment.

- Raising the annual State limitation on the Low Income Housing Tax Credit to $1.75 per capita effective for calendar year 2001 and to index that amount for inflation, beginning with calendar year 2002

- And expanding the empowerment zone tax initiative by $4.4 billion over the next 10 years.

Second, promoting universal access to a bank account

When we talk about finance we must also talk about individual access to financial services. Like money itself, the benefits that a bank account provides are easy to take for granted. Until you do not have one. And today, in the age of the Internet, derivatives, and embedded options, between 10 and 20 percent of American households still lack that basic passport to the broader economy. If 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 new economy, ensuring access to a basic bank account must be a critical challenge for today.

One recent survey in Chicago found that 44 percent of recipients of the Earned Income Tax Credit used a check cashing service to cash their EITC refund check. Estimates suggest that the costs over a lifetime for low- and middle-income families of paying fees for every check paid in, and bill paid out, could be more than $15,000.

This crucial problem can be tackled on a number of fronts:

- By building on the experience of the Electronic Transfer Account, which is now a useful entry point to the financial services mainstream for federal benefits recipients without a bank account. In only its first five months ETA 99 has secured commitments from over 300 banks to offer the account, underlining, that these types of innovations can benefit both sides.

- By passing the President's new initiative -- *First Accounts* – to bring the "unbanked" into the financial mainstream. The President's FY 2001 budget for the Treasury Department will include $30 million to pilot strategies to help low- and moderate-income Americans benefit from basic financial services that most of us take for granted – like bank accounts and ATMs.

And yet, the only way to ensure that our cities' underserved communities are able to adequately maintain the safety of the people living within them. As we have seen too often, economic distress goes hand-in-hand with the proliferation of violence – and we know well that seed capital and economic development cannot take root when the bullets are flying.

III. A New Approach to Building Safer Cities

Ensuring the safety of all of our citizens, is the first and most essential responsibility of government and it is critical to expanding the reach of our prosperity. We have made important progress in recent years:

- For 7 years in succession, the gun homicide rate has fallen, by an average of 7 percent a year.

- Overall, gun crime has fallen by more than a third, and the number of juveniles committing homicides with guns has fallen by 57 percent.

- Federal firearms prosecutions are higher today than they were in 1992, and they are up 25 percent just from 1998 to 1999.

And yet, as your "Wall of Death" shows us so powerfully, a very great deal remains to be done. It is simply not acceptable that, in 1997, 32,436 people died from gunfire in the United States – or one every sixteen minutes. You have to live with these statistics every day – and the pain and suffering that they leave behind.

Because you have joined your voices with others, the nature of the public dialogue about gun violence has been transformed. The old canards about guns are being abandoned. Now it is widely accepted that we can do better with our laws and that we need to support, not undercut, our law enforcement efforts. Your foresight led you to create a committee to bear down on the problem. Your voice was heard clearly in the resolution you passed to support most of the Administration's gun proposals. You have focused national attention on the role of the gun industry, which is bringing about a long overdue dialogue. For your leadership, I thank you.

But we must do more. Last night, in his State of the Union message, President Clinton laid out a common sense path for progress. Today I want to highlight three areas where our partnership with Mayors will be most important:

First, tougher, wider enforcement.

As Treasury Secretary, I am proud of the efforts of the men and women of the ATF to reduce violent crimes with firearms. The President has proposed to add 300 new agents at ATF, the largest increase in the history of the ATF.

- These agents will work with U.S. Attorneys and with you. They will build on what we know works in gun enforcement by targeting the most violent offenders and vigorously prosecuting those who cross the line.

- They will also work with you to disarm violent offenders by focusing enforcement efforts on the criminals-behind-the-criminal: the gun traffickers, and illegal gun buyers and possessors.

- And they will work with community institutions and services so that these offenders are supported if they choose to build new and productive lives in society.

Second, greater gun industry and gun owner responsibility.

The President's budget proposes to add 200 inspectors to ATF's workforce. These new inspectors will enable ATF to target more aggressively those dealers that are now identified as a source of crime guns.

While many licensed gun dealers are not associated with guns used in crime, in 1998 there were over 2,000 dealers that had 5 or more guns traced to them in 1998. This small group – representing less than 3 percent of active gun dealers – was associated with nearly three-quarters of crime gun traces to active dealers in 1998. The new inspectors will enhance ATF's ability to determine who is responsible for those traces – straw purchasers or other unlicensed sellers or the licensed gun dealer. If the gun dealer is in violation of the gun laws, the inspectors will take regulatory action or refer the case for criminal investigation.

But gun dealers are only one part of a more comprehensive approach:

- Manufacturers, wholesalers, retail dealers, and pawnbrokers all need to do more to tighten the chain of distribution, control inventory, secure their premises against theft, and use common sense in dealing with customers.

- Gun owners too must take greater care. More than a third of handguns are stored loaded and unlocked. The accidental gun death rate of children under 15 in the United States is nine times higher than in 25 other industrialized nations combined. We can reduce accidents and theft if gun owners, especially parents, take more responsibility for keeping firearms under wraps – and if we pass the safety lock legislation to ensure that safe storage is an option provided at the point of sale. This is why the President last night proposed a plan to develop a system of state-based licenses for handgun purchases. Applicants for a handgun license would be required to complete a certified firearms safety course or exam to demonstrate that they can handle and store a gun safely.

Third, common sense gun legislation.

For those of us who believe that tougher enforcement must be coupled with better legislation to eliminate gun violence, our last legislative session ended in deep disappointment that an opportunity had been squandered and the lessons of Columbine had been ignored.

This year we must carry forward President Clinton's call to adopt all the common sense gun legislation considered by Congress in the fall, especially closing the gun show loophole. Right now, we know that criminals who are rejected at guns stores based on Brady checks will seek out these unlicensed sellers, wherever they are, especially at gun shows where so many sellers gather. Closing the gun show loophole will squeeze the criminal, not the law abiding gun owner.

The President's handgun licensing proposal would build on the gun show legislation by requiring applicants to pass Brady background check. Each state licensing authority would regularly cross-check criminal history records to flush out license holders who have since fallen into the prohibited category, including felons and persons under domestic violence restraining orders. State participation would be optional – and supported by federal funding. For states that choose not to participate, federally approved gun dealers or a federal entity would be authorized to issue licenses. Under this system, more gun buyers would receive background checks, and states would have more ability to prevent guns from falling into the wrong hands. I ask you to support these proposals.

IV. Concluding Remarks

These are some of the particular ways we will be working to make our cities safer and more economically vibrant in the months and years ahead. You know better than I that there are many, many, others. Our commitment to sound policies, at the macro and the micro level – in Washington and around the country – has paid important dividends for your cities. But we can and must do more to help lift the heavy burden that our cities carry in America today. And we must all work together to do it. Thank you very much.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED UNTIL 3:00PM
January 31, 2000

CONTACT: Bill Buck
(202) 622-2960

TREASURY ANNOUNCES MARKET BORROWING ESTIMATES

The Treasury Department announced on Monday that net market borrowing for the January – March 2000 quarter is estimated to be a paydown of $17 billion with a cash balance of $40 billion on March 31, 2000. The Treasury Department also announced that net market borrowing for the April - June 2000 quarter will be a paydown of $152 billion with a cash balance of $40 billion on June 30.

In the quarterly announcement of its borrowing needs on November 1, 1999, the Treasury Department estimated net market borrowing for the January - March 2000 quarter to be a paydown of $12 billion with a cash balance of $20 billion on March 31, 2000. Current estimates reflect higher receipts, lower outlays and a change in cash balances.

Actual net market borrowing for the October - December 1999 quarter was $47.0 billion with a cash balance of $83.3 billion on December 31, 1999. On November 1, the Treasury Department announced its current estimate of net market borrowing to be $51 billion with a cash balance of $70 billion on December 31. The decrease in net market borrowing and the higher cash balance was the result of higher than expected receipts, primarily during the latter part of December.

The Quarterly Refunding Press Conference will be held at 9:00AM on Wednesday, February 2, 2000.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGO TIME WILL BE SET
Text as Prepared for Delivery
February 1, 2000

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, the economy had completed the third quarter with strong real growth, currently carried at 5.7 percent annual rate. Not much has changed in that respect. Fourth quarter real growth was a broadly similar 5.8 percent, according to last week's advance estimate. Clearly, the economy regained forward momentum in the second half of last year. This raised real growth over the four quarters of last year to 4.2 percent, the fourth successive year of real growth in excess of 4 percent.

This is a remarkable record of stable growth in what will become this month the longest U. S. economic expansion on record. It is more remarkable still that inflation is averaging at the lowest levels in more than three decades, while at the same time the unemployment rate has fallen to its lowest level in more than three decades. This combination of strong real growth, low inflation and a falling unemployment rate is unique in U. S. post-World War II economic experience.

Some boost to the fourth quarter had been widely expected from precautionary inventory-building by both consumers and businesses in advance of Y2K, followed by a corresponding inventory runoff and weak economic growth early this year. Final inventory data are not yet available for the fourth quarter, but it appears from current information and anecdotal reports that such activity did occur, but it did not play a dominant role in the fourth quarter. Instead, the economy displayed considerable strength wholly aside from Y2K effects.

As a consequence, near term economic forecasts have been marked up. For example, the Blue Chip forecast of October 10, made in advance of the fourth quarter, projected a 2 percent growth rate for the first quarter of this year and 2.6 percent growth across all four quarters. Their latest forecast of January 10, made in some knowledge of fourth quarter developments but without the benefit of last week's official estimates, projected 3 percent growth for the first quarter of this year -- a full percentage point higher than three months earlier -- and 3.2 percent growth across all four quarters of this year. That is quite a sizable upward move for this average of 50-some forecasts at major businesses, financial institutions and academic research organizations.

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Two key statistical releases late last week -- fourth quarter GDP and the employment cost index for the three-month period through December -- summarized the state of the economy at year-end. The general picture was one of strong real growth combined with good inflation performance. Some special features deserve comment.

Real personal consumption expenditures (roughly two-thirds of GDP) increased at a 5.3 percent annual rate in the fourth quarter, up from 4.9 percent in the third, but in line with the 5.4 percent growth across the four quarters of last year. Consumer outlays are reflecting continuing gains in employment and income, along with sharp increases in consumer net worth from rising equity values. Business fixed investment increased less rapidly in the fourth quarter, possibly because of some Y2K effects in the equipment and software areas. Software corrections were largely completed earlier in the year, while some purchasers of computer equipment later in the year may have deferred their purchases into 2000 to insure that they were Y2K compliant.

Businesses increased total inventories $65 billion in real terms in the fourth quarter, following increases of $38 billion in the third quarter and $14 billion in the second. This rising trend reflects some Y2K preparation, but it is difficult to separate from the normal accumulation stimulated by rising sales. Inventory-sales ratios are still very low and there probably is no sizable inventory overhang that needs to be worked off. While inventory investment added more than a percentage point to real growth in both the third and fourth quarters, it is unlikely to continue to make such a contribution. That is one reason why real growth may begin to moderate this year from its recent pace.

Inflation, as measured by the GDP chain weight price index less food and energy, rose at a 2.3 percent annual rate in the fourth quarter, up from 1.1 percent in the third. Similar, isolated quarterly increases of much the same magnitude have occurred in recent years without signifying any lasting departure from a low trend rate of inflation. But, this is an area where developments will need to be followed closely.

The employment cost index, also released late last week, rose by 1.1 percent during the three months ending in December, following increases averaging 0.8 percent during the first three quarters of the year. During the twelve months of 1999, the employment cost index increased by 3.4 percent, the same as in 1998. Gains in compensation have been largely offset in their cost-increasing impact by rising productivity. While fourth-quarter productivity results are not yet available, rough adjustment of the GDP and workhours data suggests a fourth quarter productivity gain of 4 percent or more. This would obviously outweigh the relatively minor fourth-quarter acceleration in the employment cost index. The general conclusion one reaches is that employee compensation is still in the same moderate range consistent with rising productivity and low inflation that has ruled throughout the expansion.

Information currently available suggests that the economy began this year with considerable forward momentum.

- The surveys of both the Conference Board and the University of Michigan reported sharp increases from December to record levels of consumer confidence in January. The Conference Board felt that consumer spending may very well pick up even more over the next few months, while the January surge in the Michigan index was the largest month-to-month gain in more than five years.

- After a strong Christmas sales season, some sales slowdown might have been anticipated. Industry reports suggest that the holiday sales pace extended into this year on a seasonally adjusted basis with sales generally running at or above plan.

- Recent jobless claims data indicate that labor markets remain extremely tight. In the week ended January 22, initial claims for state unemployment insurance edged up by just 1,000 to 266,000 while claims for the previous week were revised down sharply to 265,000 -- the lowest level since December, 1973.

While the recent indicators have been strong, there is reason to believe that real growth is likely to shade down from the 5 percent pace of the second half of last year. About 1 percentage point of that was due to inventories, influenced in part by Y2K concerns which are now behind us. In addition, some other GDP components seem to have received a boost prior to Y2K that may now begin to fade away or even reverse. All things considered, the economy seems likely to grow at a somewhat more moderate, but still healthy pace going forward with inflation remaining under control.

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

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
January 31, 2000

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Term:	91-Day Bill
Issue Date:	February 03, 2000
Maturity Date:	May 04, 2000
CUSIP Number:	912795DU2

High Rate: 5.560% Investment Rate 1/: 5.731% Price: 98.595

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	$ 22,979,396	$ 5,325,016
Noncompetitive	1,448,432	1,448,432
PUBLIC SUBTOTAL	24,427,828	6,773,448 2/
Foreign Official Refunded	730,000	730,000
SUBTOTAL	25,157,828	7,503,448
Federal Reserve	5,048,010	5,048,010
Foreign Official Add-On	0	0
TOTAL	$ 30,205,838	$ 12,551,458

Median rate 5.540%: 50% of the amount of accepted competitive tenders as tendered at or below that rate. Low rate 5.470%: 5% of the amount f accepted competitive tenders was tendered at or below that rate.

.d-to-Cover Ratio = 24,427,828 / 6,773,448 = 3.61

' Equivalent coupon-issue yield.
' Awards to TREASURY DIRECT = $1,141,986,000

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
January 31, 2000

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Term:	182-Day Bill
Issue Date:	February 03, 2000
Maturity Date:	August 03, 2000
CUSIP Number:	912795EV9

High Rate: 5.705% Investment Rate 1/: 5.972% Price: 97.116

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	$ 16,784,592	$ 2,382,592
Noncompetitive	1,118,326	1,118,326
PUBLIC SUBTOTAL	17,902,918	3,500,918 2/
Foreign Official Refunded	3,000,000	3,000,000
SUBTOTAL	20,902,918	6,500,918
Federal Reserve	3,525,000	3,525,000
Foreign Official Add-On	560,000	560,000
TOTAL	$ 24,987,918	$ 10,585,918

Median rate 5.675%: 50% of the amount of accepted competitive tenders 'as tendered at or below that rate. Low rate 5.600%: 5% of the amount ·f accepted competitive tenders was tendered at or below that rate.

id-to-Cover Ratio = 17,902,918 / 3,500,918 = 5.11

/ Equivalent coupon-issue yield.
/ Awards to TREASURY DIRECT = $848,865,000

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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U.S. International Reserve Position

February 1, 2000

The Treasury Department today released U.S. reserve assets data for the week ending January 28, 2000.

As indicated in this table, U.S. reserve assets totaled $70,495 million as of January 28, 2000, down from $71,144 million as of January 21, 1999.

n US millions)

Official U.S. Reserve Assets	January 21, 2000			January 28, 2000		
TOTAL		71,144			70,495	
Foreign Currency Reserves [1]	Euro	Yen	TOTAL	Euro	Yen	TOTAL
a. Securities	5.078	6,115	11,193	4.906	5.991	10,896
Of which, issuer headquartered in the U.S			0			0
b. Total deposits with:						
b.i. Other central banks and BIS	8.732	11.838	20.570	8.448	11.596	20.043
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
IMF Reserve Position [2]			17.990			*18.100*
Special Drawing Rights (SDRs) [2]			10.343			*10 406*
Gold Stock [3]			11.048			11 048
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 eposits reflect carrying values

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 te. Consistent with current reporting practices, IMF data for January 21, 1999 are final. Data for SDR holdings and the reserve position in e IMF shown as of January 28, 2000 (in italics) reflect preliminary adjustments by the Treasury to the January 21, 2000 IMF data

Gold stock is valued monthly at $42.2222 per fine troy ounce. Values shown are as of December 31, 1999. The November 30, 1999 lue was $11 049 million

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

U.S. International Reserve Position (cont'd)

II. Predetermined Short-Term Drains on Foreign Currency Assets	January 21, 2000	January 28, 2000
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	January 21, 2000	January 28, 2000
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-a-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
DEPARTMENT OF JUSTICE

For Immediate Release
February 1, 2000

Contacts: Maria Ibanez, Treasury
202-622-2960
Myron Marlin, Justice
202-616-2777

STATEMENT OF TREASURY SECRETARY LAWRENCE H. SUMMERS AND ATTORNEY GENERAL JANET RENO

Today, we received the report of the Commission on the Advancement of Federal Law Enforcement. We commend the Commission for its hard work and the courtesies which it has extended to the Departments of the Treasury and Justice. It has been both thoughtful and deliberative in its review. We particularly commend the Commission for raising concerns regarding training, police integrity and technology.

While the report has many recommendations that must be studied before we can comment, the proposals to merge ATF and DEA into the FBI are not new. We have previously considered, studied and rejected the idea of merging the ATF and DEA into the FBI.

We believe such a merger would be unnecessary and would be detrimental to our law enforcement efforts.

ATF collects revenue, regulates legitimate industries and has criminal enforcement authority. Having all these functions has allowed ATF to be flexible in its enforcement approaches and has fostered a mutually productive partnership between it and the regulated industries. Merging ATF's criminal enforcement jurisdiction into the FBI would eliminate this synergy. There would be reductions in ATF's effectiveness and no material efficiencies or budgetary savings from merging ATF into the FBI.

Over the years, DEA has exhibited a proven ability to foster law enforcement cooperation both domestically and internationally. A merger would result in a dilution of the nation's successful anti-drug effort and would cause a significant loss of momentum in domestic and overseas enforcement activities. Both the DEA and FBI possess unique skills which complement each other and merging the two would not result in cost savings or increased efficiency.

We appreciate the work of the Commission in seeking to improve federal law enforcement efforts. Together we will review the remaining recommendation and provide our comments to the Commission, to the Congress and to the American people.

# # #

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED UNTIL 5 PM (EST)
Text as Prepared for Delivery
February 1, 2000

"Moving Forward with Millennial Debt Relief"
Remarks by Treasury Secretary Lawrence H. Summers
Reception to Celebrate HIPC
House Banking Committee Room
United States Congress
Washington, DC

Thank you. I have two tasks today. The first is to join with the rest of the Administration in thanking everyone in this room – and, especially, the individuals we are honoring today – for your hard work on the HIPC initiative during the past year. Chairman Leach, Ranking Member LaFalce, Senator Mack, Senator Sarbanes, Congressman Bachus, Congresswoman Waters – quite simply, without your support and commitment to this effort it would not have happened. Literally hundreds of millions of the world's poorest people owe you their thanks and so does the Administration.

My second task is to remind you that we have more to do to make HIPC happen – and to assure you that the Administration is one hundred percent committed to working with you to get it done. Debt relief for the poorest countries is a global moral imperative. It is also a global economic imperative, at a time when nearly all of the growth in the world's labor force and productivity will be in the developing countries – and their success in a new 21st century global economy is going to be important to the success of us all.

As you know, the work you all did for the FY2000 budget made it possible for the international community to move forward with providing broader, deeper and faster debt relief to countries committed to growth, economic reform and reducing poverty. That success was a tribute to the dedication of the NGO community and the people who have supported this effort in Congress from the beginning. And it is enormously important. Indeed, with these appropriations in place, as many as eleven countries will begin to benefit from debt reduction by the spring of 2000, with Bolivia, Mauritania, and Uganda now due to qualify in a matter of days.

That is the good news. The bad news is that the HIPC countries as a whole will not fully benefit from the time and energy that we have all invested in HIPC – unless we invest some more. The steps agreed last year will help us to cover roughly one-third of the direct costs to the United States of the enhanced HIPC we all want to see. And they will make it possible for the IMF to free up a substantial part of the internal resources it needs to write down the debts that are owed to it.

LS-363

But we have not yet done our full share, notably with respect to the HIPC Trust Fund and other multilateral pieces of HIPC, where every dollar of our total request will leverage $20 dollars in multilateral debt relief. The Latin American HIPCs will be especially affected if we fail to ensure that the HIPC Trust Fund is adequately funded. To put it bluntly: if we do not play our part in this area, debt relief for Bolivia, Guyana, Honduras, and Nicaragua will not happen.

That is why the President is asking for a supplemental request for the FY2000 budget of $210 million for the HIPC Trust Fund and authorization to use the remaining earnings on revalued IMF gold for debt relief. In the upcoming budget request for FY 2001 we will ask for a further $225 million to make good on our commitment to HIPC going forward: $150 million for the HIPC Trust Fund and $75 million to meet the cost of reducing out bilateral debts. To underscore our commitment to seeing this initiative through, he is also requesting $375 million in FY 2001 in advance appropriations for these two elements of HIPC.

It is good accounting to write off debts that will never be repaid. And it is good economics to reduce debts when the effort to collect those debts creates such an overhang that you reduce he amount you will ultimately collect. It is also morally right – at a time when interest payments on foreign debt, in some of the poorest countries in the world, exceed their annual spending on education or health.

The choice we face is a simple one. We can do more to play our part in making HIPC happen. Or we can achieve less: HIPC can provide less support for market-led growth in the poorest countries in the world; it can free up fewer resources to invest in social priorities such as child immunization, clean water, and primary education in places where a child is more likely to die before the age of 5 than to go to secondary school; it can provide less effective support for better governance and wider participation in policy in these countries, even though we know that true growth and human development will not happen without them. We do not believe this is a difficult choice to make.

As you know, in his budget the President is also requesting Congressional support for an initiative that supports these same crucial goals – by promoting faster development and wider delivery of vaccines for infectious diseases. Diseases such as HIV/AIDS, tuberculosis and malaria are responsible for almost half of all deaths worldwide of people under 45. Providing vaccines to prevent these deaths is one of the most cost-effective ways there is of raising the well being and productivity of people in the poorest countries. To this end, the President is proposing:

- First, a $50 million contribution to vaccine purchase through the purchase fund of the Global Alliance for Vaccines and Immunization (GAVI).

- Second, that the World Bank and other multilateral development banks dedicate an additional $400 million to $900 million each year of their concessional lending to enhance efforts to immunize, prevent and treat infectious diseases in the poorest countries.

- Third, a significant increase in funding for National Institutes of Health research on malaria, tubercolosis and HIV/AIDS.

- Fourth, a new tax credit to help accelerate the development for these and other diseases, which would provide matching funds of up to $1 billion over ten years upon sale of a newly-invented vaccine.

I hope that you will continue to support us on every part of this full and urgent agenda. In the end. the only ones who can build a better future for these countries are their own governments and people. But as we enter this millennial year, we have the capacity. and the responsibility to play our part in helping them to help themselves. Again, thank you for what you have already done – and thank you what we are able to do in the months ahead, to make this historic effort a reality.

With that, let me hand over to our vital supporter in this effort – Chairman Leach.

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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
bruary 01, 2000

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 52-WEEK BILLS

Term:	364-Day Bill
Issue Date:	February 03, 2000
Maturity Date:	February 01, 2001
CUSIP Number:	912795FR7

High Rate: 5.905% Investment Rate 1/: 6.287% Price: 94.029

All noncompetitive and successful competitive bidders were awarded :urities at the high rate. Tenders at the high discount rate were lotted 99%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 21,274,020	$ 7,430,020
Noncompetitive	1,087,164	1,087,164
PUBLIC SUBTOTAL	22,361,184	8,517,184 2/
Foreign Official Refunded	1,483,000	1,483,000
SUBTOTAL	23,844,184	10,000,184
Federal Reserve	5,420,000	5,420,000
Foreign Official Add-On	804,000	804,000
TOTAL	$ 30,068,184	$ 16,224,184

Median rate 5.880%: 50% of the amount of accepted competitive tenders tendered at or below that rate. Low rate 5.840%: 5% of the amount accepted competitive tenders was tendered at or below that rate.

-to-Cover Ratio = 22,361,184 / 8,517,184 = 2.63

Equivalent coupon-issue yield.
Awards to TREASURY DIRECT = $756,877,000

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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

EMBARGO TIME WILL BE SET
February 2, 2000

UNDER SECRETARY OF THE TREASURY FOR DOMESTIC FINANCE
GARY GENSLER
REMARKS AT THE FEBRUARY 2000 TREASURY QUARTERLY REFUNDING

Good morning. I am pleased to be with you today to discuss the government's refunding needs for the current quarter. This month marks the longest running economic expansion in our nation's history. The President announced on Monday that, by the end of the year, we will have paid down approximately $300 billion in debt over three years. As our nation's debt takes up a smaller portion of our economy and our financial markets, our continued fiscal discipline contributes significantly to the health of the economy.

Debt Management Challenges

To date, Treasury has managed the declining debt by refunding our regularly maturing debt with smaller amounts of new debt. We have accomplished this by two means. First, we have reduced the number of longer-term debt issuances by one-third, from 39 to 26 auctions per year, while keeping auction sizes relatively constant. Second, we have cut the size of our short term bill auctions by almost a quarter, from an average of almost $20 billion in 1996 to just over $15 billion in 1999, but have maintained the number of issues.

Fortunately, as budget surpluses continue to diminish our borrowing needs, we now face additional challenges going forward.

First, debt held by the public is forecast to shrink even further and faster than it has in the last two years. As we announced on Monday, we estimate that we will paydown $17 billion in net market borrowing for the January-March quarter. This will be followed next quarter with the largest reduction in publicly held debt in our nation's history, as we pay down approximately $152 billion. More significantly, there is now a consensus among private sector and government forecasters that these paydowns will grow in the future.

LHS-365

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 15 months, the last of the old 7-year and 3-year notes will mature. Thus, by 2002, debt maturing will decline significantly. 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 longer-term financing (10-year and 30-year debt), the average maturity of Treasury debt is forecast to lengthen from about 5 3/4 years currently to approximately 8 years by the end of 2004. Over the long term, this would impose an unnecessary additional cost on the taxpayers to finance our debt.

We have several announcements to make today concerning adjustments we are making across our debt management program to further address these challenges.

Reducing Size of Long-Maturity Issues

Our first announcement concerns reductions in the issuance sizes of longer-maturity debt. This reduces our funding, takes into consideration the longer-term fiscal forecasts, and helps us manage the average maturity of our debt. In this regard, we plan to reduce the issuance of 5-year, 10-year and 30-year debt, both fixed rate and inflation-indexed securities.

At the last quarterly refunding, we announced new rules to facilitate reopening of our benchmark securities within one year of issuance. We now will be adopting a regular reopening schedule for our longer term securities. Our current offering plans are as follows:

- New 5-year notes will be offered in May and November, with smaller reopenings in February and August. The February five-year note therefore will be a smaller reopening of the November 5-year note.

- New 10-year notes will be offered in February and August, with smaller reopenings in May and November. The May offering of our 10-year notes therefore will be a reopening of the 10-year notes we issue this quarter.

- New 30-year bonds will be offered only in February, with significantly smaller reopenings in August.

In line with the reductions we are making in our 5- and 10-year notes and 30-year bonds, we also intend to reduce the issuance size of our inflation-indexed notes and bonds. We started this process last month, when we reduced the auction size on the 10-year securities from $7 billion to $6 billion. We are now announcing that we plan to auction only one 30-year inflation-indexed bond, which will be issued in October. There will be no April issue. In addition, we most likely will make further modest reductions in the size of the 10-year inflation-indexed note.

Taken together, our aggregate issuance of 30-year debt for this fiscal year will be less than half what it was in FY1999. We expect that these changes to our auction schedule will preserve the liquidity of our 5-, 10- and 30-year securities while reducing the overall size of our longer term issuances. We will continue to assess the size, frequency, and issuance of these securities in the future.

Debt Buybacks

Last month, Treasury announced the adoption of a final rule that permits us to conduct buybacks of outstanding Treasury securities prior to maturity. We will begin using this new debt management tool promptly.

We plan to conduct up to $30 billion of debt buybacks this year, with the first operations conducted in the next two months. Our initial buyback operations will be approximately $1 billion each in size and will focus on the longer-maturity sector. These initial operations will provide an opportunity for both the market and the Treasury to gain experience with the reverse auction process prior to more significant operations. After evaluating our first buyback operations, we will refine our approach to using buybacks going forward. The use of debt buybacks will help us best maintain the liquidity of our remaining issues, while also managing the average maturity of Treasury debt.

Reducing Number of Short Maturity Issues

Lastly, we plan to reduce the issuance of our shorter-maturity securities. Based on the Borrowing Advisory Committee's recommendations, we are reducing the auction frequency of our one-year bills. These bills currently are auctioned every four weeks. We will now auction one-year bills only four times each year. The last monthly auction of the one-year bill will take place on March 2 and the next auction will then be June 1. This change to our auction schedule will eliminate five one-year bill issues this fiscal year.

Consistent with the Committee's recommendations, we will maintain the regular monthly auctions of our two-year notes at the present time. We plan, however, to cut modestly the size of individual auctions of two-year notes.

These changes will enable us to increase the size of our three- and six-month bill auctions, as well as respond to our reduced borrowing needs. We will increase the size of weekly bills beginning with the regular auction announcement tomorrow. It is likely that, as further reductions in issuance becomes necessary, elimination of the one-year will be considered.

Terms of the February Refunding

I will now turn to the terms of the quarterly refunding. We are offering $32 billion of notes and bonds to refund $27.6 billion of privately held notes maturing on February 15, raising approximately $4.4 billion.

The securities are:
1) A reopening of the 5 7/8 % note of November 1999, maturing on November 15, 2004, in the amount of $12 billion;
2) A 10-year note in the amount of $10 billion, maturing on February 15, 2010; and
3) A 30 1/4-year bond in the amount of $10 billion, maturing on May 15, 2030.

These securities are scheduled to be auctioned on a yield basis at 1:00 p.m. Eastern time on Tuesday, February 8, Wednesday, February 9, and Thursday, February 10, respectively.

As announced on Monday, January 31, 2000, we estimate that we will have a $40 billion cash balance on March 31, as well as on June 30. We expect to issue cash management bills this quarter to bridge seasonal low points in our cash position.

The next quarterly refunding press conference will be held on May 3, 2000.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

FOR RELEASE WHEN AUTHORIZED AT PRESS CONFERENCE
February 2, 2000

CONTACT: Office of Financing
202/691-3550

TREASURY FEBRUARY QUARTERLY FINANCING

The Treasury will auction $12,000 million of 4-3/4-year 5-7/8% notes, $10,000 million of 10-year notes, and $10,000 million of 30-1/4-year bonds to refund $27,624 million of publicly held securities maturing February 15, 2000, and to raise about $4,376 million of new cash.

In addition to the public holdings, Federal Reserve Banks hold $3,470 million of the maturing securities for their own accounts, which may be refunded by issuing additional amounts of the new securities.

The maturing securities held by the public include $3,594 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 $159 million into the 4-3/4-year note, $11 million into the 10-year note, and $1 million into the 30-1/4-year bond.

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

All of the securities 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 notes and bond are given in the attached offering highlights.

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Attachment

HIGHLIGHTS OF TREASURY OFFERINGS TO FEBRUARY 2000 QUARTERLY FINANCING

February 2, 2000

Offering Amount	$12,000 million	$10,000 million	$10,000 million
Description of Offering:			
Term and type of security	4-3/4-year notes (reopening)	10-year notes	30-1/4-year bonds
Series	H-2004	B-2010	Bonds of May 2030
CUSIP number	912827 5S 7	912827 5Z 1	912810 FM 5
Auction date	February 8, 2000	February 9, 2000	February 10, 2000
Issue date	February 15, 2000	February 15, 2000	February 15, 2000
Dated date	November 15, 1999	February 15, 2000	November 15, 1999
Maturity date	November 15, 2004	February 15, 2010	May 15, 2030
Interest rate	5-7/8%	Determined based on the highest accepted competitive bid	Determined based on the highest accepted competitive bid
Yield	Determined at auction	Determined at auction	Determined at auction
Interest payment dates	May 15 and November 15	August 15 and February 15	May 15 and November 15 (first payment on May 15, 2000)
Minimum bid amount and multiples	$1,000	$1,000	$1,000
Accrued interest payable by investor	$14.84890 per $1,000 (from November 15, 1999, to February 15, 2000)	None	Determined at auction (from November 15, 1999, to February 15, 2000)
Premium or discount	Determined at auction	Determined at auction	Determined at auction
STRIPS Information:			
Minimum amount required	$1,600,000	Determined at auction	Determined at auction
Corpus CUSIP number	912820 EE 3	912820 EM 5	912803 CH 4
Due date(s) and CUSIP number(s) for additional TINT(s)	Not applicable	Not applicable	May 15, 2029--912833 XS 4 November 15, 2029--912833 XT 2 May 15, 2030--912833 XU 9

The following rules apply to all securities mentioned above:

Submission of Bids:

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

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

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

Maximum Award .... 35% of public offering

Receipt of Tenders:

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

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

Payment Terms .... 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.

REPORT TO THE SECRETARY OF THE TREASURY
FROM THE
TREASURY ADVISORY COMMITTEE
OF THE
BOND MARKET ASSOCIATION

February 1, 2000

Dear Mr. Secretary:

Since the Committee's last meeting on November 2, 1999, the US economy has continued to expand at a rapid pace, with the Commerce Department recently reporting that GDP posted a 5.8% annualized growth rate in the fourth quarter. Solid gains in consumer demand are responsible for the bulk of the strength in GDP during the second half of 1999, but the breadth of the global recovery points to a likely near term rebound in exports as well. There are few signs at this time that the higher interest rate structure is cooling the pace of economic activity. On the inflation front, higher oil prices have pushed up headline readings for CPI and PPI in recent months. Moreover, there are some signs that the tightness in labor markets may be leading to an acceleration in wage and benefit costs. However, productivity appears to be expanding at a rapid rate, which is helping to keep a lid on overall unit labor costs. Indeed, there is still little indication of a pick-up in underlying price pressures at this point. On balance, the outlook for the U.S. economy continues to appear quite favorable.

With the FOMC announcing a 25 basis point rate hike on November 16, Treasury yields generally continued to trend higher since our last meeting. Factors responsible for the trend included: continued evidence of a robust domestic economy, signs of an improving global economic environment, continued strength in equity markets, and the absence of any significant Y2K-related disruptions. On January 13, the Treasury unveiled the details of its program to repurchase up to $30 billion of securities this year. Most importantly to market participants, the Treasury announced that government accounting rules would not treat any premium purchase as a budget outlay.

This announcement contributed to a narrowing of spreads between benchmark issues and off-the-run securities, and seemed to be a catalyst for lower bond yields, and an inversion of the yield curve between the 10- and 30-year sectors. Other technical and fundamental factors—such as mortgage hedging activity, the supply of intermediate sector securities, rising budget surplus forecasts, and more aggressive expectations and pricing of the scope and pace of Federal Reserve rate increases appear to have reinforced the movement of 30-year yields relative to the rest of the Treasury yield curve.

Within this context, and against a backdrop of expected large fiscal surpluses, the Committee considered a number of issues related to the Treasury's financing plans.

In response to a question regarding the average maturity of the debt in the current fiscal environment, the Committee noted that a significant extension would occur assuming current budget surplus projections, unless substantive changes are made in the financing schedule. Members expressed the view that the average maturity of the debt should be stabilized, and ideally brought down as debt is retired. With the additional goal of maintaining sufficient market liquidity to promote orderly markets, members considered a number of alternatives in response to the Treasury's request to make recommendations concerning additional adjustments to its financing plans this year.

Specifically, the Committee recommended a reduction in the issuance of 52-week bills to 4 issues per year, with a goal of the eventual elimination of the instrument. Members continue to feel that the 52-week bill offers the least incremental utility to investors relative to alternative investments with similar maturities. Any ability to issue additional securities should be directed to enhancing the liquidity of the 3- and 6-month bill sectors.

The Committee strongly supported the establishment of a regular reopening policy for the quarterly refunding issues in order to allow for some further reduction in issue size while preserving market liquidity to the greatest extent possible. The Committee's recommendation was consistent with the principle of offering new 5- and 10-year notes in quarters where long bonds were not being offered.

In the discussion of the extending average maturity profile and the reduced liquidity of benchmark Treasury issues, the Committee noted that inflation-indexed securities have been growing rapidly as a share of total Treasury issuance, and without a change will contribute significantly to a lengthening of the average maturity of the debt. In addition, some members expressed the view that this debt represented an excessive cost to the Treasury. The Committee supported eliminating the 30-year inflation-indexed issue that would normally be auctioned in April with the objectives of stabilizing the proportion of TIPS issuance, and reducing the contribution of TIPS to the extension of the average maturity.

Specifically, the Committee recommended a financing to refund approximately $27.6 billion of privately held notes maturing on February 15 and to issue $32 billion in notes and bonds consisting of the following offerings:

- $14.0 billion of the 5-7/8% notes due November 15, 2004
- $8.0 billion of the 6% notes due August 15, 2009
- $10.0 billion of a 30-1/4 year bond due May 15, 2030

The reopenings of the 5- and 10-year notes were supported to allow the Treasury to establish a regular reopening pattern consistent with the principles outlined earlier, in addition to enhancing market liquidity.

The recommendation for a new 30-1/4 year bond was made in the context of the Treasury's limited ability to offer new bond issues, the desire to enhance the relatively limited supply of May and November coupons in the Treasury STRIPS market, and a view to a reopening of this issue in smaller size at a later date to support the dual goal of stabilizing the average maturity of the debt and enhancing market liquidity.

In regard to the composition of Treasury market financing for the remainder of the current quarter, the Committee recommends that the Treasury meet its borrowing requirement in the following manner:

- Two 2-year notes of $14.0 billion each,
- A 1-year bill of $10.0 billion,
- Weekly issuance of 3- and 6-month bills through the remainder of the quarter, and
- Three cash management bills totaling $102 billion to mature in late April.

For the second calendar quarter, the Treasury estimates a net market paydown of about $152 billion with a cash balance of $40 billion on June 30. To accomplish this requirement, the Committee preliminarily recommends the financing schedule in the attached table.

Finally, the Committee considered a series of questions related to the Treasury's buyback program. The Committee felt that the Treasury should not be constrained by a particular maturity range in its operation, but should purchase securities with the highest yields consistent with the average maturity goal. Members continue to feel that the Treasury can operate consistent with the Federal Reserve coupon pass format with a relatively short notice period, while acknowledging the desirability of allowing some additional time in early operations. Although the Treasury might want to start with a relatively small operation, the Committee felt that fewer and more sizable buybacks consistent with market conditions, would prove most effective and least disruptive.

In an environment of declining Treasury debt issuance, the Committee discussed, at the Treasury's request, the implications for financial markets and possible risk to the government of the following: the increasing globalization of the markets, hedging and pricing practices in fixed income markets, and the growth of Government Sponsored Enterprises.

The impact of the globalization of fixed income markets has been a significant broadening of the investor base for Treasury debt, and an increasing focus on non-sovereign alternatives. Concerning hedging and pricing practices in fixed income markets, members noted the greatly increased use of agency debt and swaps for hedging purposes in a broad spectrum of fixed income transactions by all market participants—with a particularly notable increase by end-users. This has occurred in a favorable credit environment with a rapid increase in the issuance of agency debt and other credit market instruments compared to Treasury new issues. The development of market liquidity in these alternative hedging instruments has been successful to date, but is unproven in a more difficult credit environment. As to the possible risks to the government of the growth of Government Sponsored Enterprises and alternative hedging markets, there was no consensus on the Committee as to how to assess the nature and severity of this risk.

Respectfully submitted,

K. deRegt

Kenneth M. deRegt

U.S. TREASURY FINANCING SCHEDULE FOR 2ND QUARTER 2000

BILLIONS OF DOLLARS

ISSUE	ANNOUNCEMENT DATE	AUCTION DATE	SETTLEMENT DATE	OFFERED AMOUNT	MATURING AMOUNT	NEW MONEY	FOREIGN ADD-ONS
3&6 MONTH BILLS	03/30	04/03	04/06	14.00	16.4	-2.43	
	04/06	04/10	04/13	14.00	16.5	-1.51	
	04/13	04/17	04/20	14.00	16.1	-2.14	
	04/20	01/24	01/27	14.00	15.5	-1.51	
	04/27	05/01	05/04	14.00	16.6	-2.81	
	05/04	05/08	05/11	14.00	15.5	-1.53	
	05/11	05/15	05/18	18.00	15.7	2.30	
	05/18	05/22	05/25	18.00	15.5	2.50	
	05/25	05/29	06/01	18.00	16.0	2.00	
	05/30	06/05	06/08	18.00	15.5	2.50	
	06/08	06/12	06/15	18.00	15.5	2.50	
	06/15	06/19	06/22	18.00	15.5	2.50	
	06/22	06/26	06/29	18.00	15.5	2.50	
				210.00	204.91	5.09	

1-YEAR BILLS

	04/20	04/25	04/27	0.00	10.2	-10.16	
	05/18	05/22	05/25	0.00	10.1	-10.14	
	06/01	06/06	06/08	10.00	10.3	-0.30	
				10.00	30.59	-20.59	

CASH MANAGEMENT BILLS

51-Day Bill	2/22	2/24	02/29	0.00	27.00	-27.00	
MATURES 4/20							
55-Day Bill	02/29	3/02	03/03	0.00	35.00	-35.00	
MATURES 4/27							
20-Day Bill	03/28	03/30	03/31	0.00	40.00	-40.00	
MATURES 04/20							
13-Day Bill	05/25	05/31	06/02	15.00	15.00	0.00	
MATURES 6/15							

COUPONS

INFLATION-INDEXED SECURITY	04/05	04/12	04/17	0.00	10.1*	-10.1	
2-YEAR NOTE	04/19	04/26	05/01	14.00	24.2	-10.2	
5-YEAR NOTE	05/03	05/09	05/15	14.00			
10-YEAR-NOTE	05/03	05/10	05/15	24.00 10.00	29.9	-5.9	
2-YEAR NOTE	05/17	05/24	05/31	14.00	25.5	-11.5	
2-YEAR NOTE	06/21	06/28	06/30	14.00	25.1	-11.1	
				66.00	114.9	–48.9	14.2

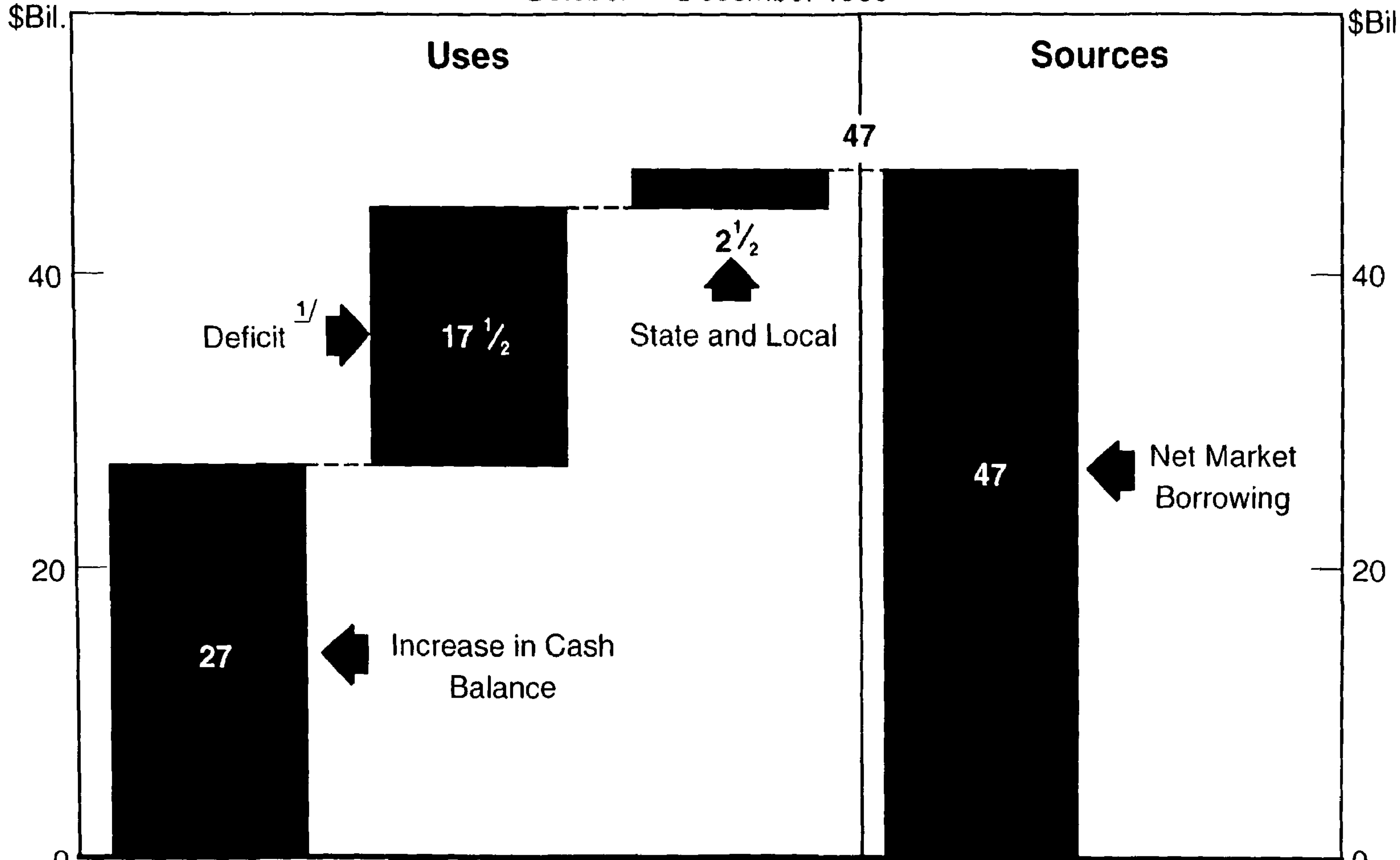
NET CASH RAISED THIS QUARTER
FOREIGN ADD-ONS/MISC. PURCHASES
TOTAL NEW MONEY RAISED THIS QUARTER

TREASURY ANNOUNCED Q2 BORROWING NEED OF -$162 BILLION ON 1/31/00	-166.4 14.2 -152.2	ASSUMES ABOUT $14 BILLION FOREIGN ADD-ONS FOR THE QUARTER

* MATURING 7-YEAR NOTE
A = ANNOUNCED

TREASURY FINANCING REQUIREMENTS

October — December 1999



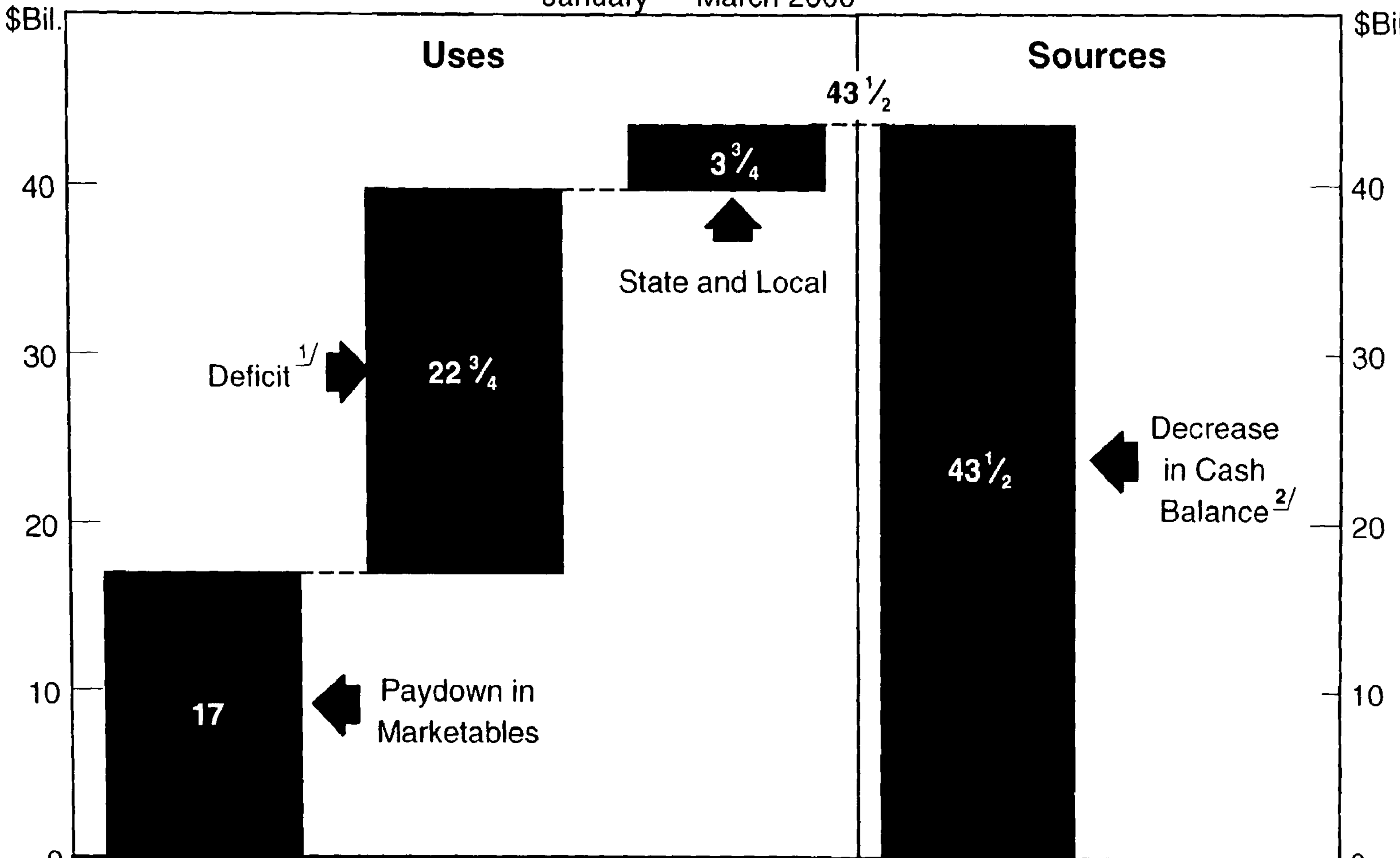
1/ Includes budget results, direct loan activity, changes in accrued interest and checks outstanding and minor miscellaneous debt transactions.

Department of the Treasury
Office of Market Finance

January 31, 2000-1

TREASURY FINANCING REQUIREMENTS

January — March 2000



1/ Includes budget results, direct loan activity, changes in accrued interest and checks outstanding and minor miscellaneous debt transactions.

2/ Assumes a $40 billion cash balance, March 31, 2000.

Department of the Treasury
Office of Market Finance

January 31, 2000-2

NET MARKET BORROWING

January – March 2000

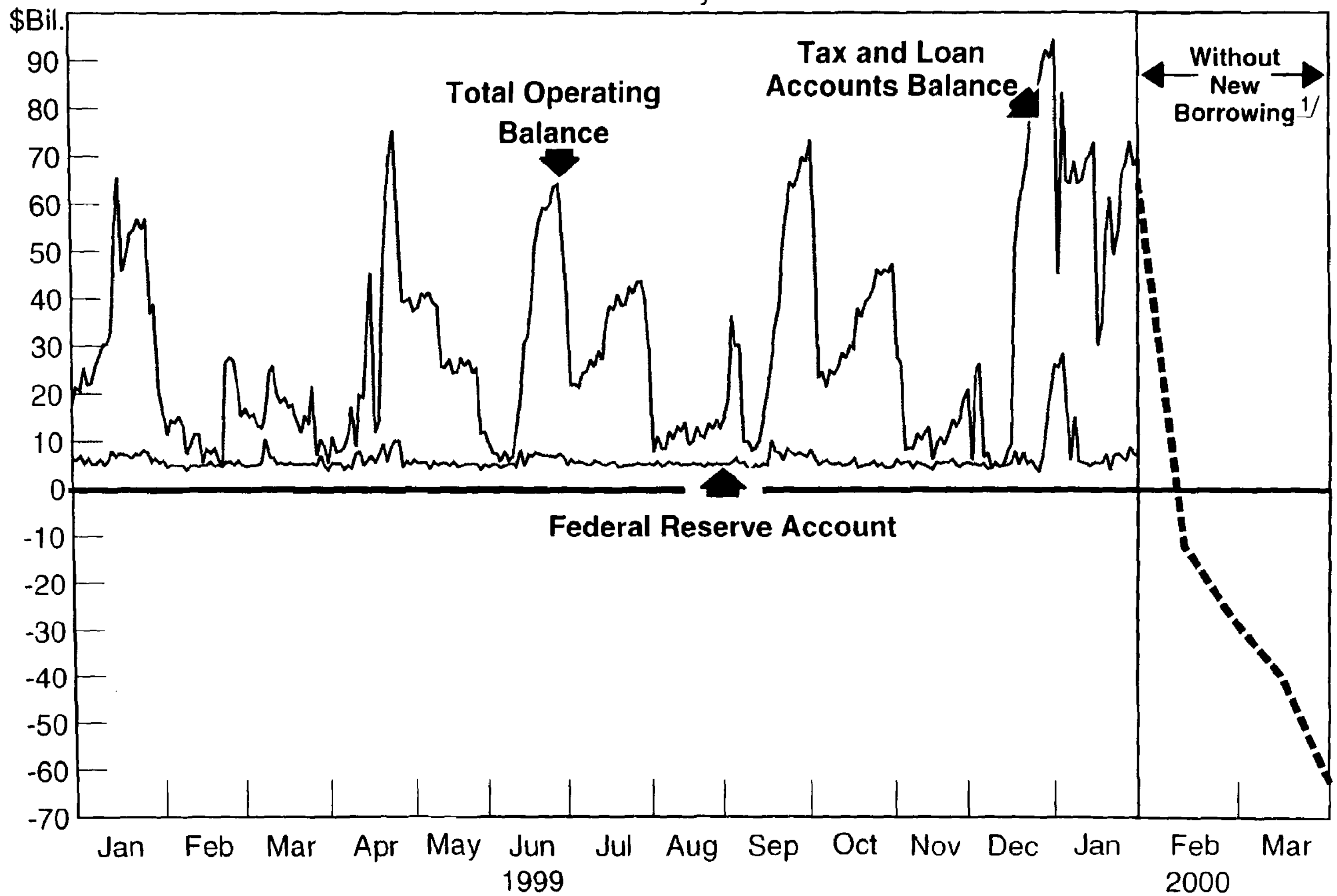
(Billions of Dollars)

Total		**-16.9**
Done*		**-108.4**
Bills		
Regular weekly	-16.7	
52 week	-0.9	
Cash management	-54.1	
Coupons		
7 year note	-10.1	
2 year note	0.1	
5 year note	-33.1	
10 year inflation-indexed note	6.3	
To Be Done		**91.5**

* Issued or announced through January 28, 2000.

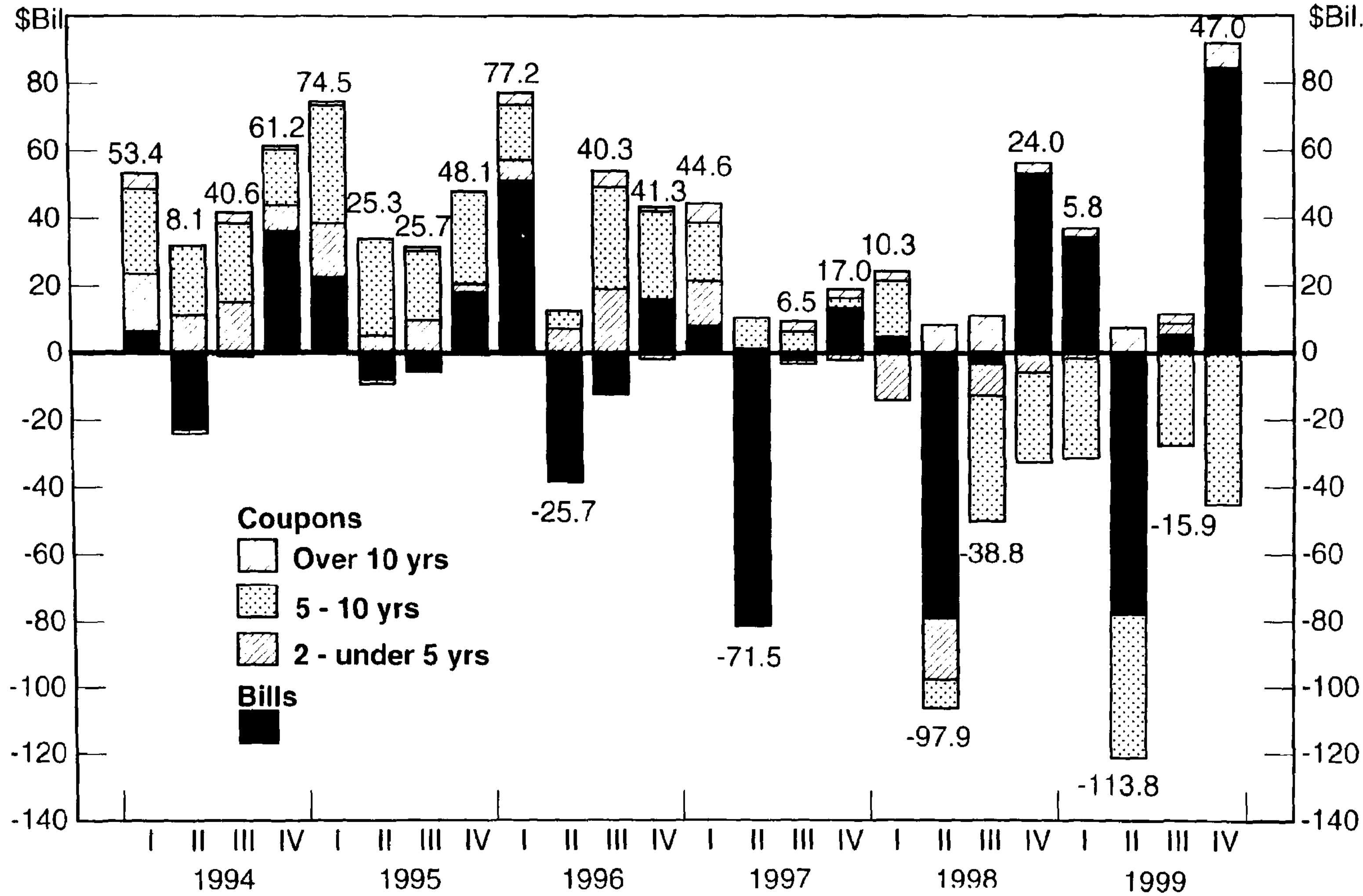
TREASURY OPERATING CASH BALANCE

Daily



1/ Data points are semi-monthly.

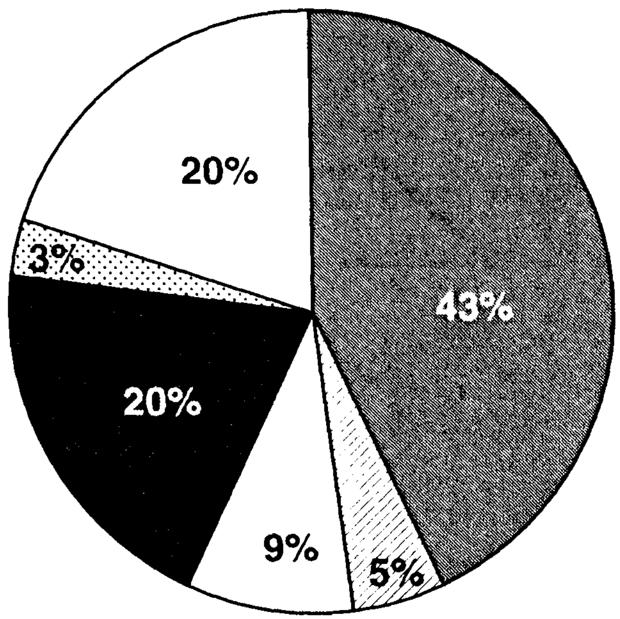
TREASURY NET MARKET BORROWING [1/]

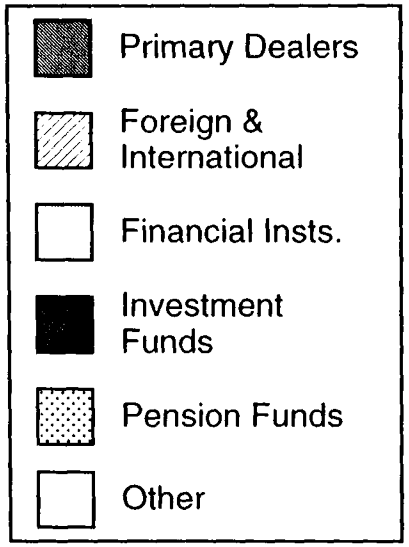


1/ Excludes Federal Reserve and Government Account Transactions.

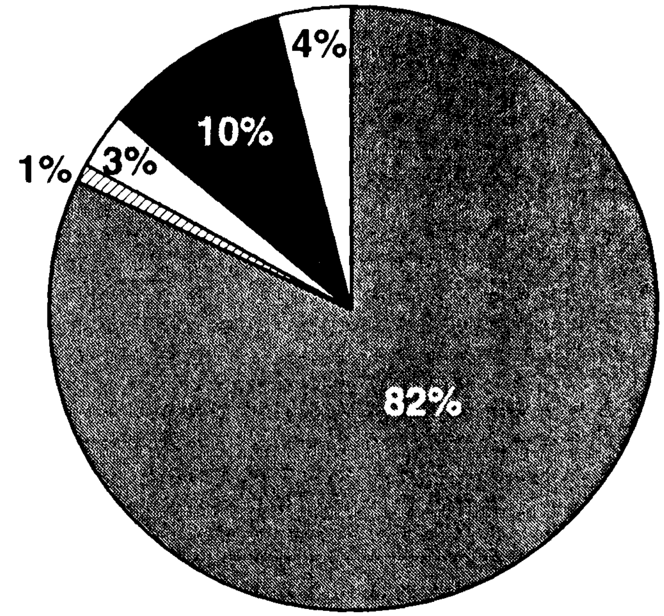
DISTRIBUTION OF COMPETITIVE AUCTION AWARDS OF TREASURY NOTES

10-Year Inflation-Indexed
January & July 1999, &
January 2000 Auctions



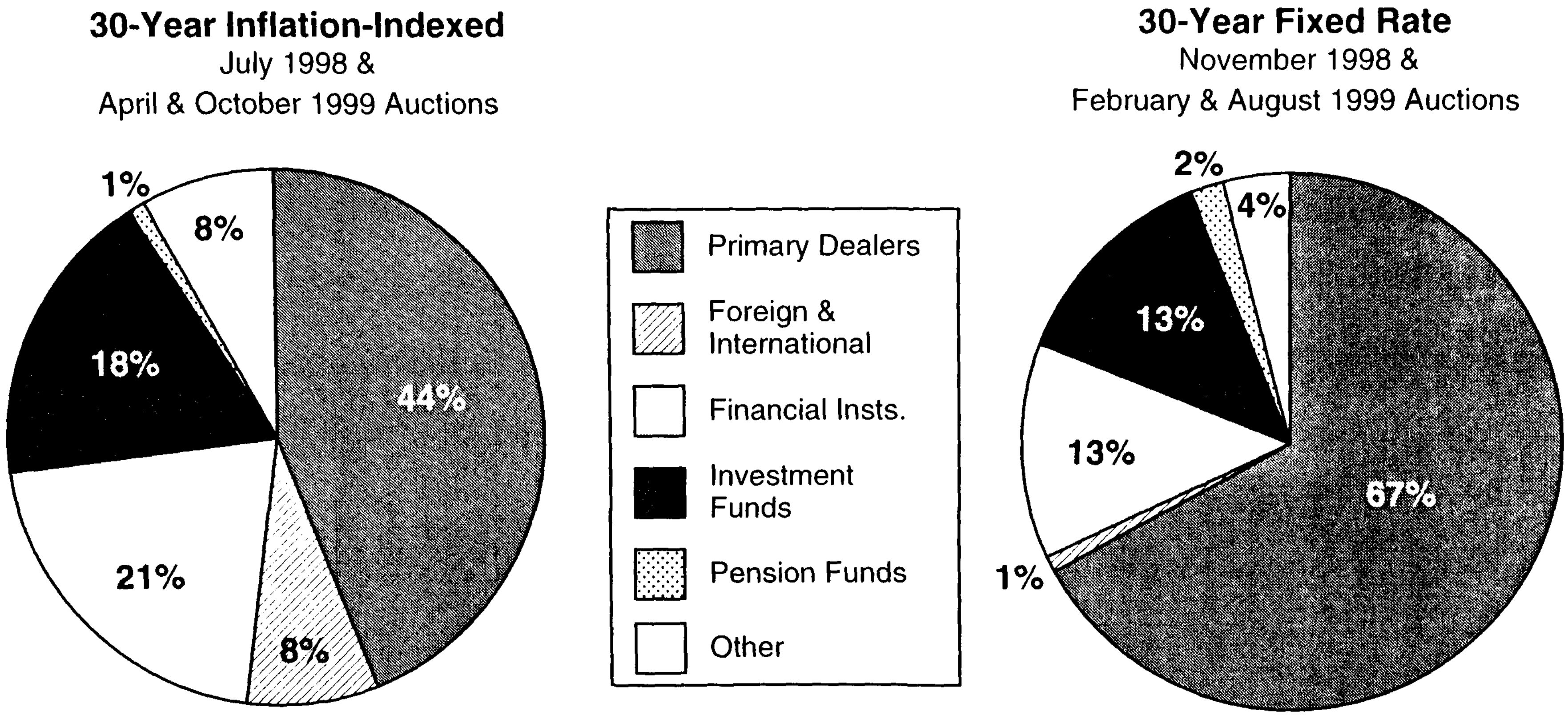


10-Year Fixed Rate
May, August & November
1999 Auctions



Note: Investment funds include investment mgrs., mutual funds, and hedge funds.
Financial insts. include nonprimary dealers, depository insts., and insurance cos.
Other includes individuals, nonfinancial cos., and other financial cos.

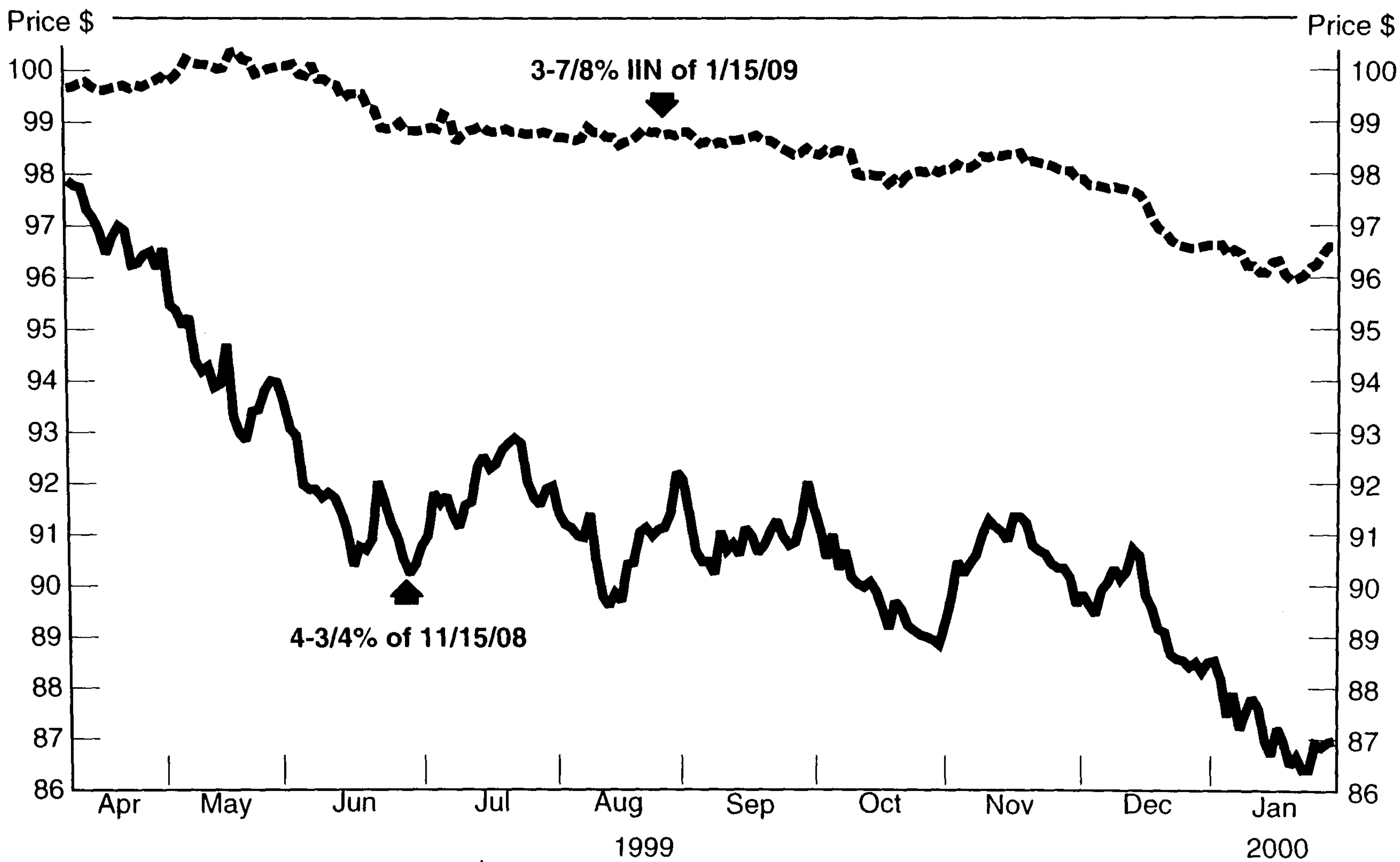
DISTRIBUTION OF COMPETITIVE AUCTION AWARDS OF TREASURY BONDS



Note: Investment funds include investment mgrs., mutual funds, and hedge funds.
Financial insts. include nonprimary dealers, depository insts., and insurance cos.
Other includes individuals, nonfinancial cos., and other financial cos.

PRICES FOR 10-YEAR 3-7/8% IIN AND 10-YEAR 4-3/4% FIXED-RATE NOTE [1/]

Daily Data: 4/8/99 through 1/27/00



[1] Real Price for inflation-indexed note

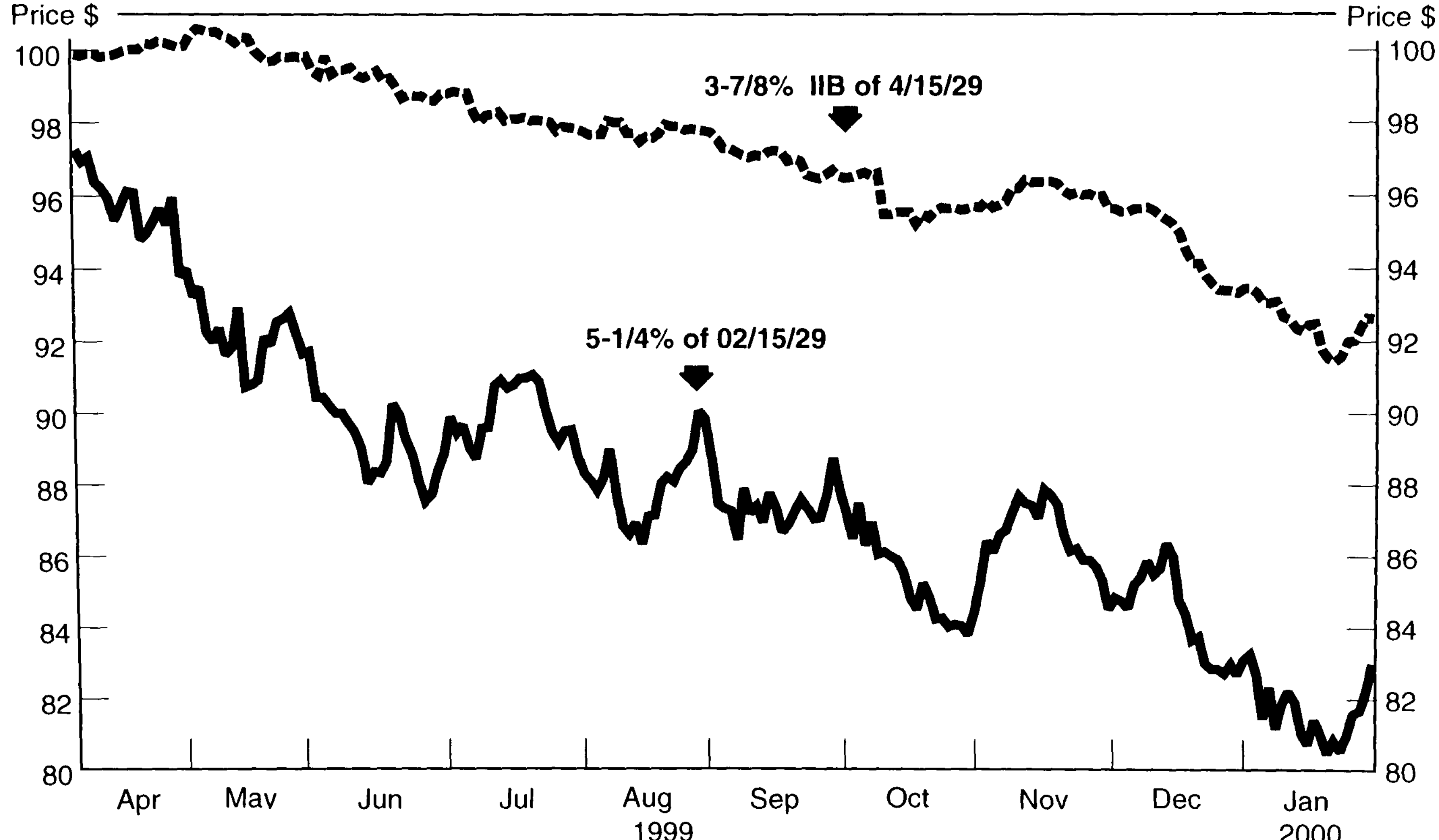
Correlation: 84.4% STD IIN/STD Nominal = 0.45

Department of the Treasury
Office of Market Finance

January 31, 2000-8

PRICES FOR 30-YEAR 3-7/8% IIB AND 30-YEAR 5-1/4% FIXED-RATE BOND[1/]

Daily Data: 4/8/99 through 1/27/00

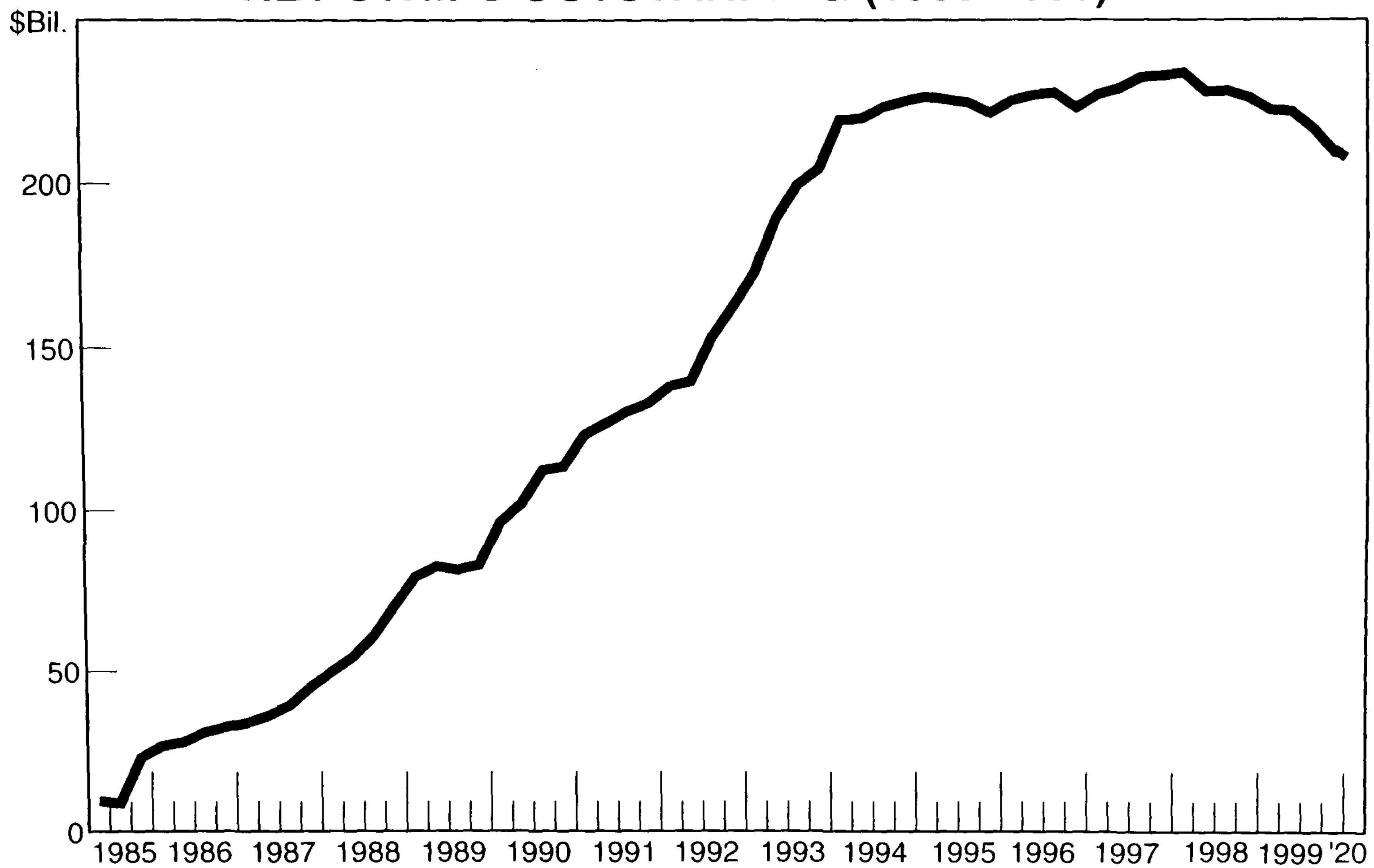


1/ Real Price for inflation-indexed note
Correlation: 91.9% STD IIN/STD Nominal = 0.61

Department of the Treasury
Office of Market Finance

January 31, 2000-9

NET STRIPS OUTSTANDING (1985-2000)*

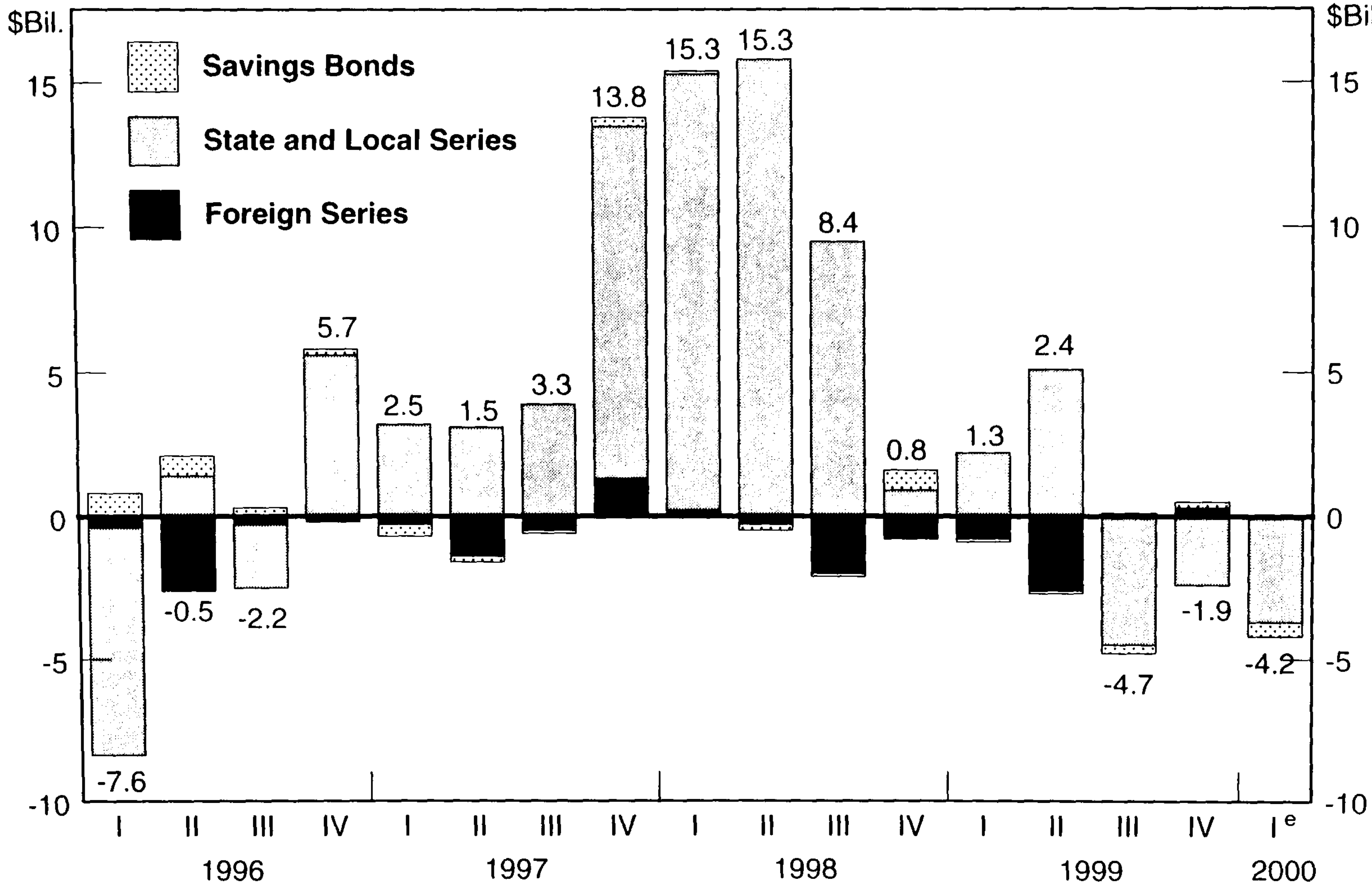


*Strips program began February 15, 1985.
Reconstitution began May 1, 1987.
Inflation-indexed securities had not been stripped as of January 21, 2000.

Department of the Treasury
Office of Market Finance

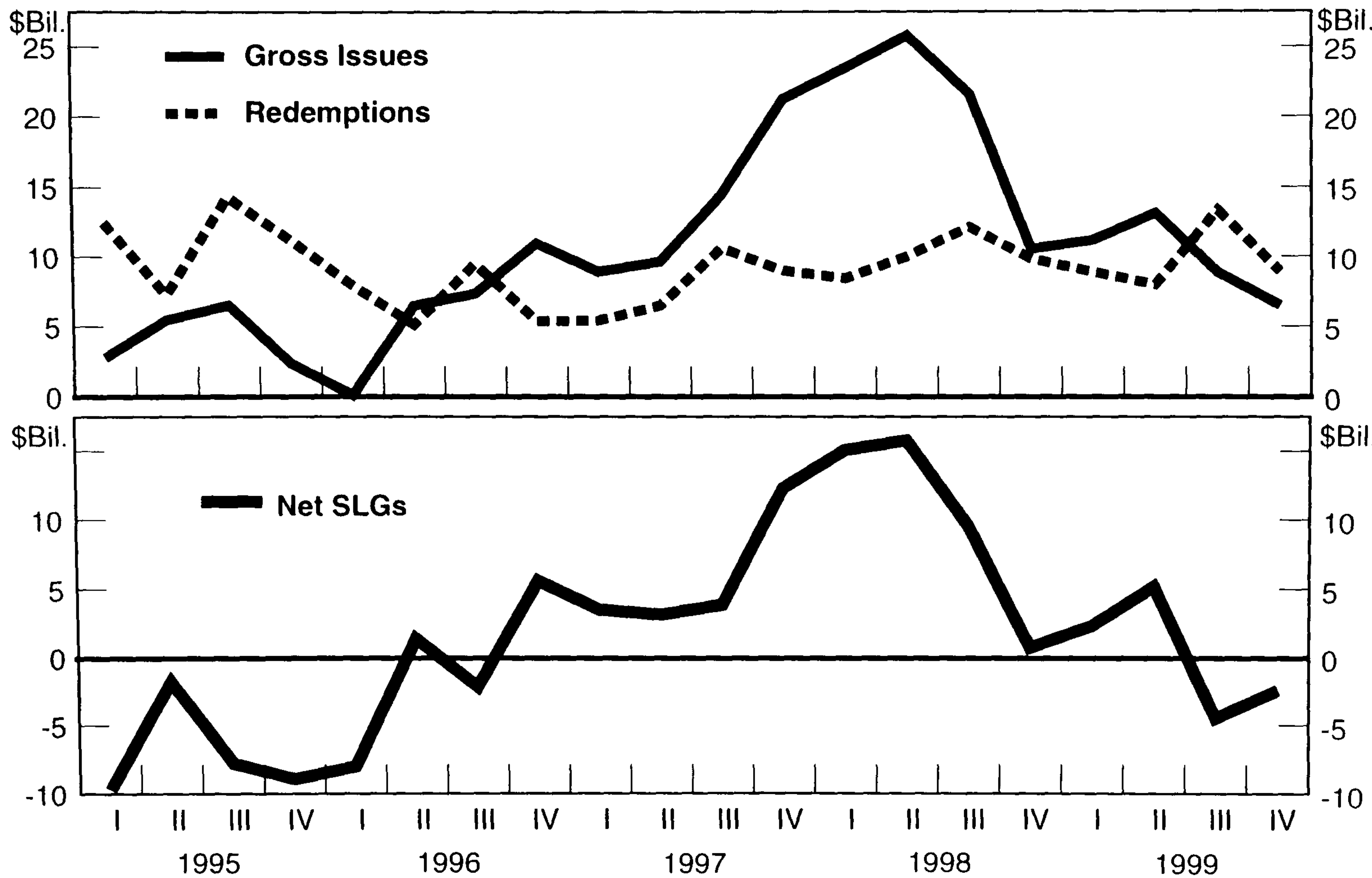
January 31, 2000-10

TREASURY NET BORROWING FROM NONMARKETABLE ISSUES

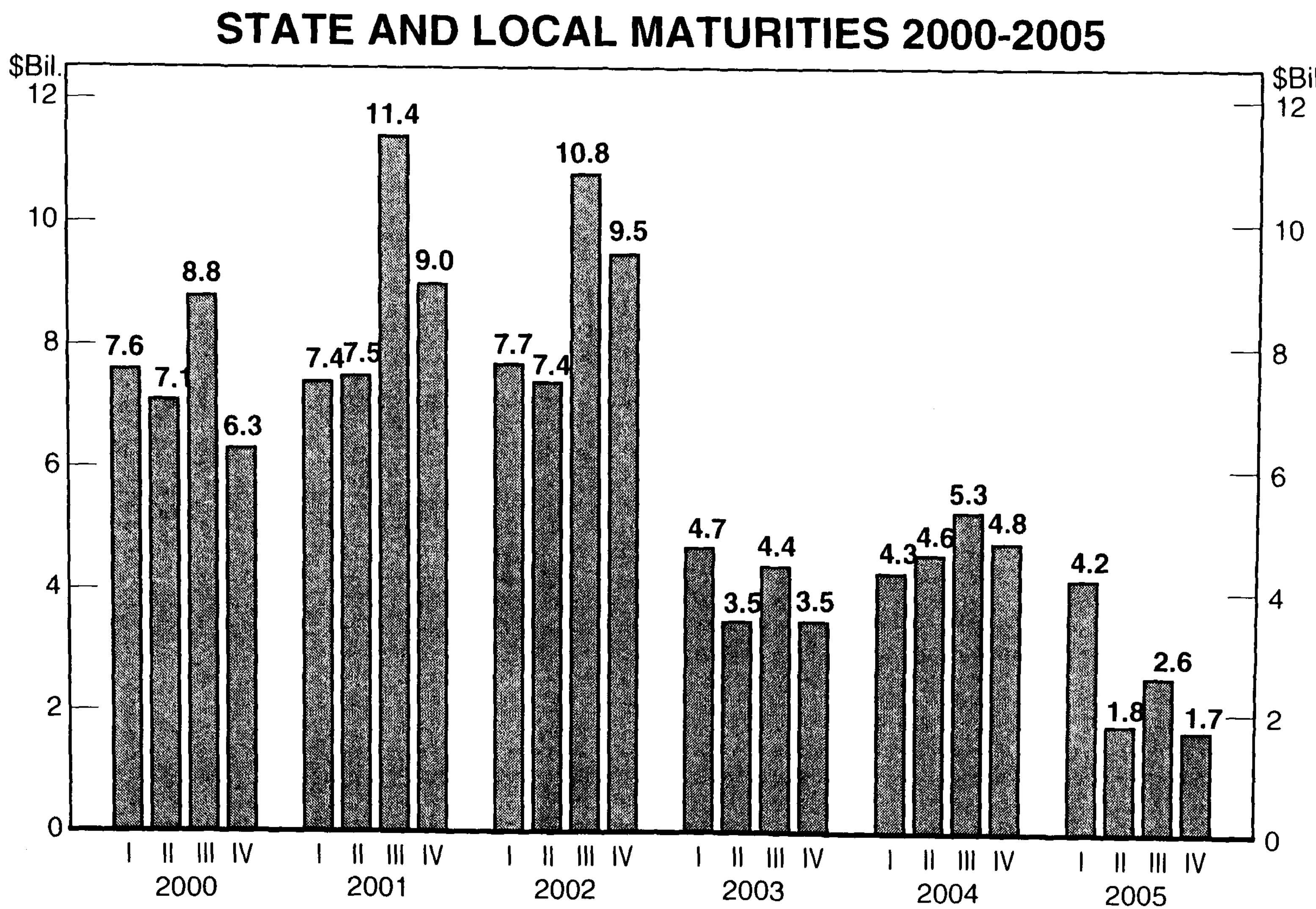


e estimate

STATE & LOCAL GOVERNMENT SERIES



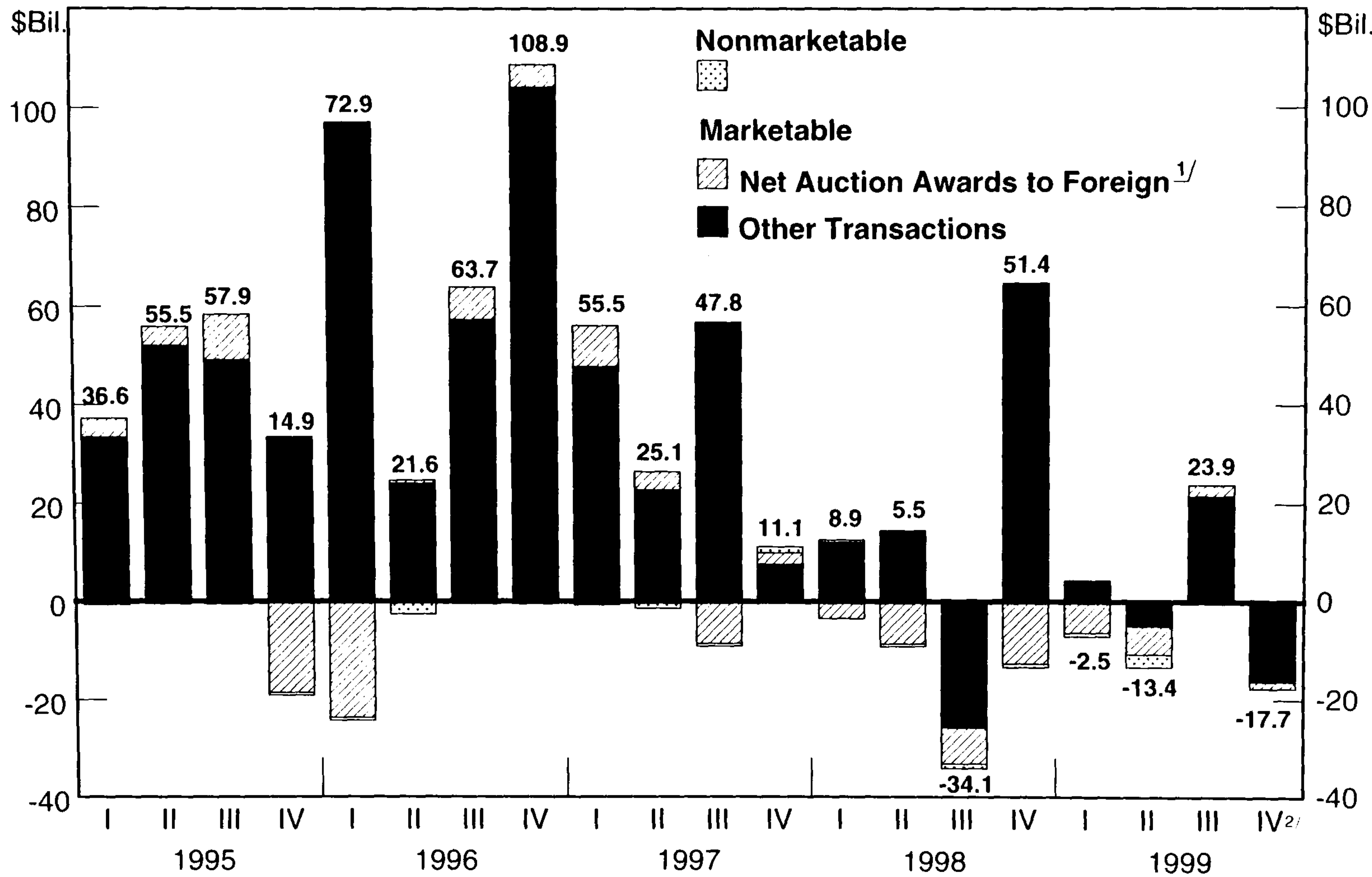
Note: SLGS sales were suspended from October 18, 1995 to March 29, 1996.



Department of the Treasury
Office of Market Finance

January 31, 2000-13

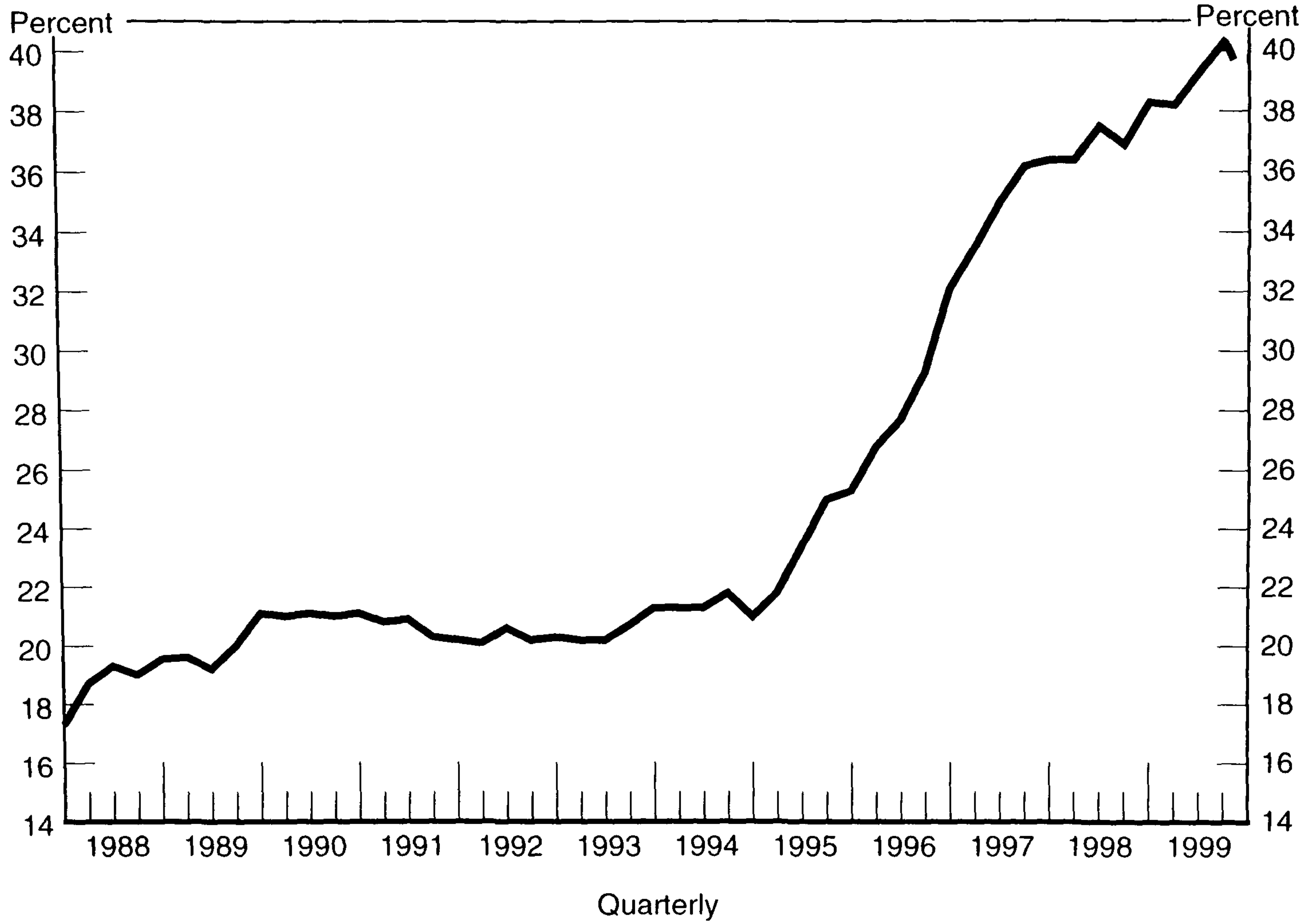
QUARTERLY CHANGES IN FOREIGN AND INTERNATIONAL HOLDINGS OF PUBLIC DEBT SECURITIES



1 Noncompetitive awards to foreign official accounts held in custody at the Federal Reserve in excess of foreign custody account holdings of maturing securities. Foreign add-ons prohibited from October 18, 1995 to March 29, 1996 to avoid exceeding the debt limit.

2 Data through November 30, 1999.

FOREIGN HOLDINGS AS A PERCENT OF TOTAL PRIVATELY HELD PUBLIC DEBT



Department of the Treasury
Office of Market Finance

January 31, 2000-15

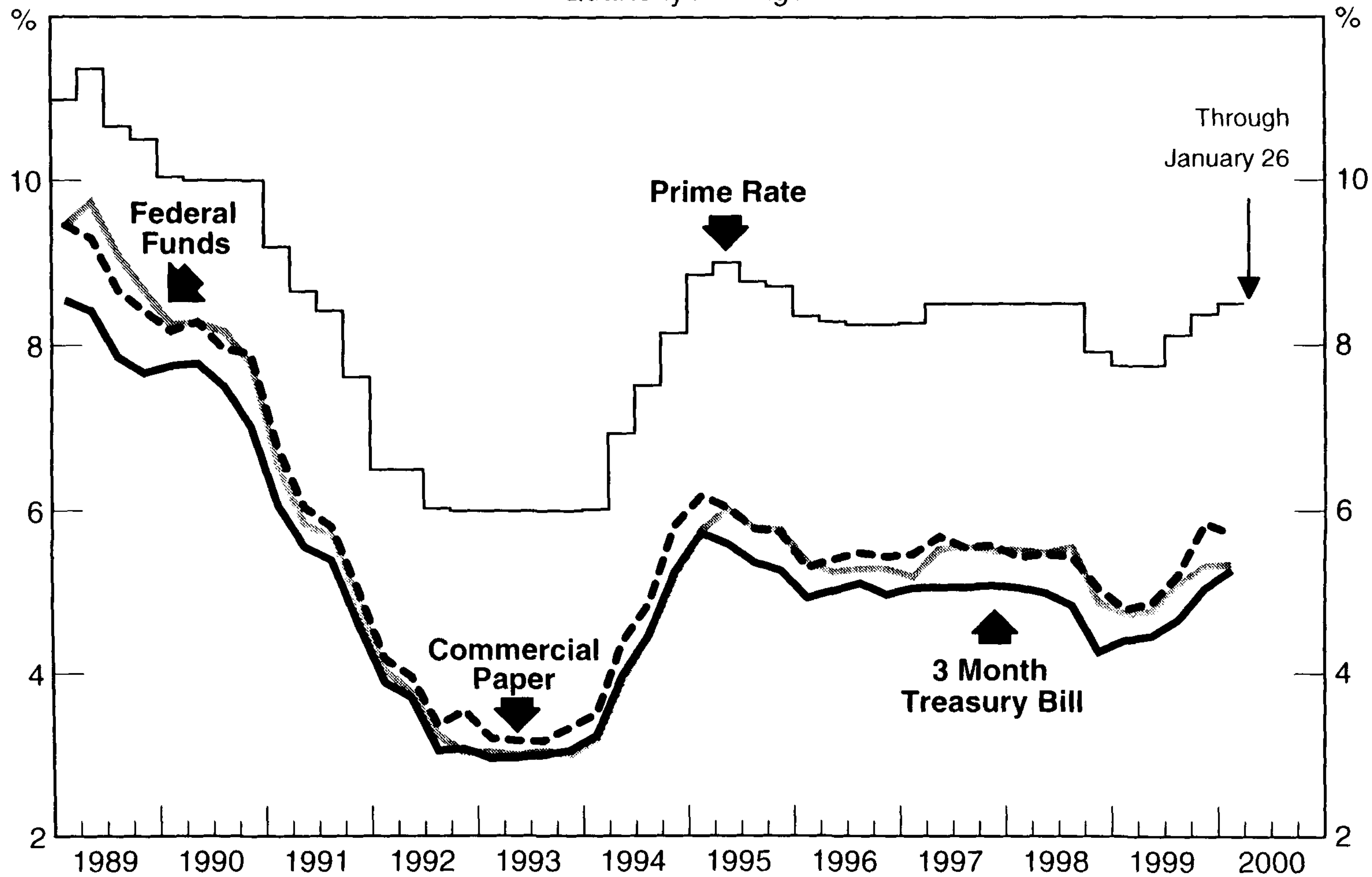
MAJOR FOREIGN HOLDERS OF TREASURY SECURITIES

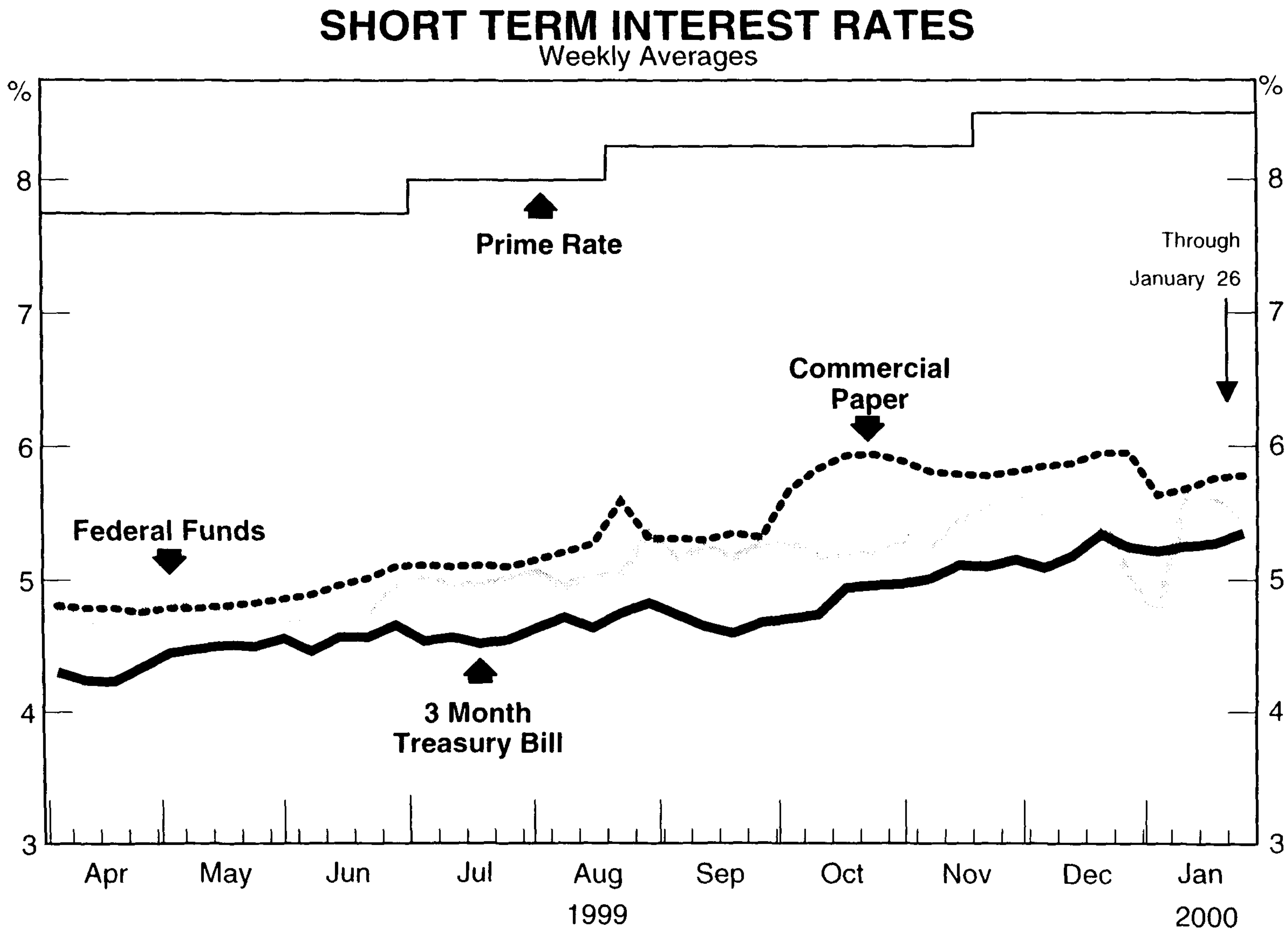
Country	November 30, 1999 $ Billions	November 30, 1999 As a % of Total Foreign	November 30, 1999 As a % of Total Private	December 31, 1998 $ Billions	December 31, 1998 As a % of Total Foreign	December 31, 1998 As a % of Total Private	December 31, 1997 $ Billions	December 31, 1997 As a % of Total Foreign	December 31, 1997 As a % of Total Private
Japan	$313.9	24.8%	9.9%	$276.1	21.6%	8.3%	$277.6	22.4%	8.2%
United Kingdom	246.1	19.5%	7.7%	264.0	20.6%	7.9%	251.3	20.2%	7.4%
Germany	96.2	7.6%	3.0%	95.1	7.4%	2.9%	93.9	7.6%	2.8%
Mainland China	50.1	4.0%	1.6%	46.4	3.6%	1.4%	47.9	3.9%	1.4%
OPEC	46.8	3.7%	1.5%	42.9	3.4%	1.3%	58.4	4.7%	1.7%
Hong Kong	45.3	3.6%	1.4%	44.2	3.5%	1.3%	35.0	2.8%	1.0%
Mexico	34.6	2.7%	1.1%	37.4	2.9%	1.1%	35.9	2.9%	1.1%
France	31.2	2.5%	1.0%	30.0	2.3%	0.9%	13.3	1.1%	0.4%
Singapore	30.1	2.4%	0.9%	43.1	3.4%	1.3%	35.2	2.8%	1.0%
Belgium-Luxemburg	29.1	2.3%	0.9%	31.5	2.5%	0.9%	26.0	2.1%	0.8%
Taiwan	27.9	2.2%	0.9%	31.3	2.4%	0.9%	33.2	2.7%	1.0%
Switzerland	25.5	2.0%	0.8%	33.7	2.6%	1.0%	28.0	2.3%	0.8%
Spain	24.5	1.9%	0.8%	41.2	3.2%	1.2%	51.7	4.2%	1.5%
Canada	18.6	1.5%	0.6%	12.4	1.0%	0.4%	11.5	0.9%	0.3%
Netherland Antilles	11.6	0.9%	0.4%	21.7	1.7%	0.7%	35.7	2.9%	1.1%
Other	232.1	18.4%	7.3%	227.7	17.8%	6.8%	207.0	16.7%	6.1%
Estimated Foreign Total	$1,263.6	100.0%	39.7%	$1,278.7	100.0%	38.4%	$1,241.6	100.0%	36.6%

Source: Treasury Foreign Portfolio Investment Survey benchmark as of end-year 1994 and monthly data collected under the Treasury International Capital reporting system.

SHORT TERM INTEREST RATES

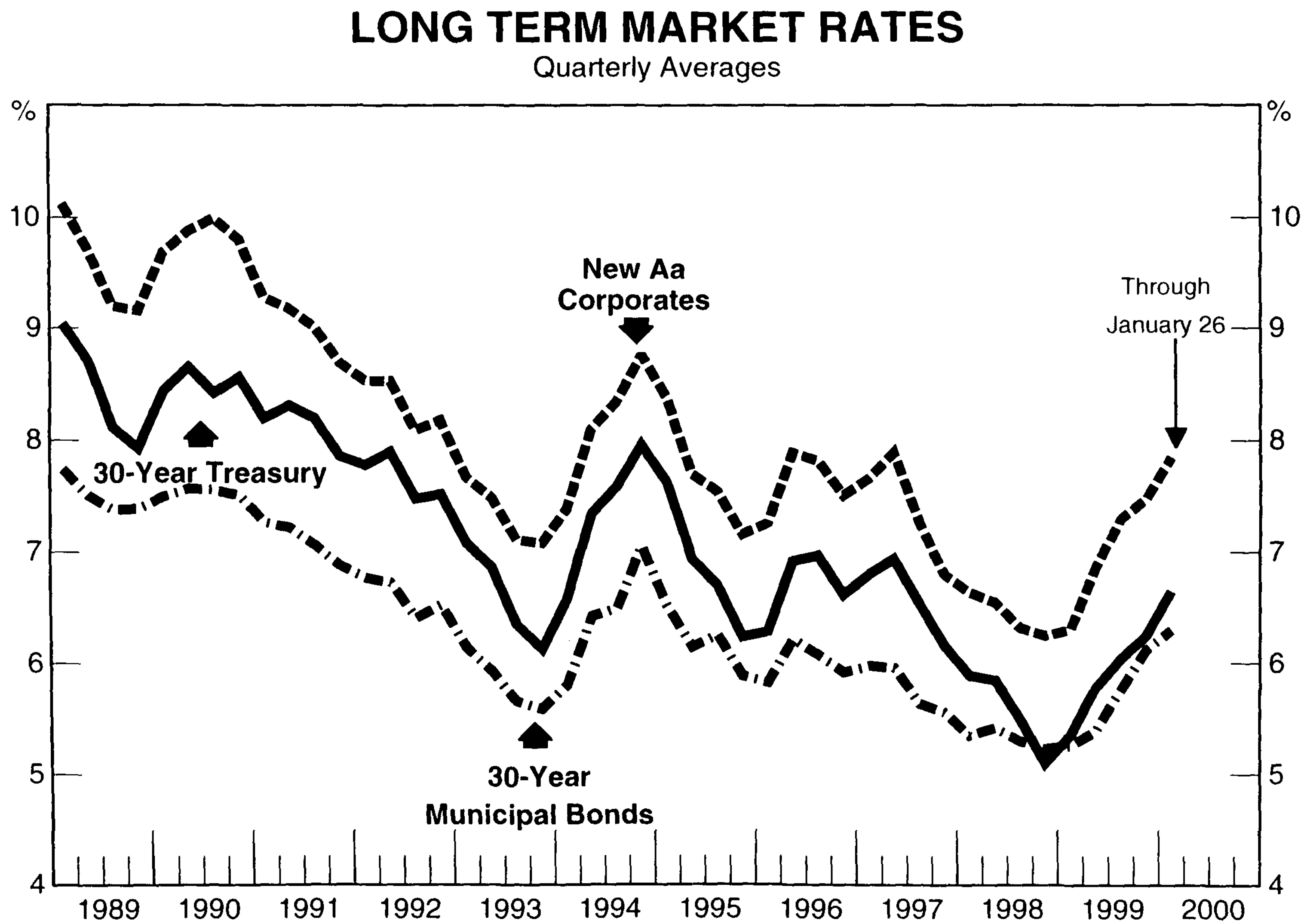
Quarterly Averages





Department of the Treasury
Office of Market Finance

January 31, 2000-18

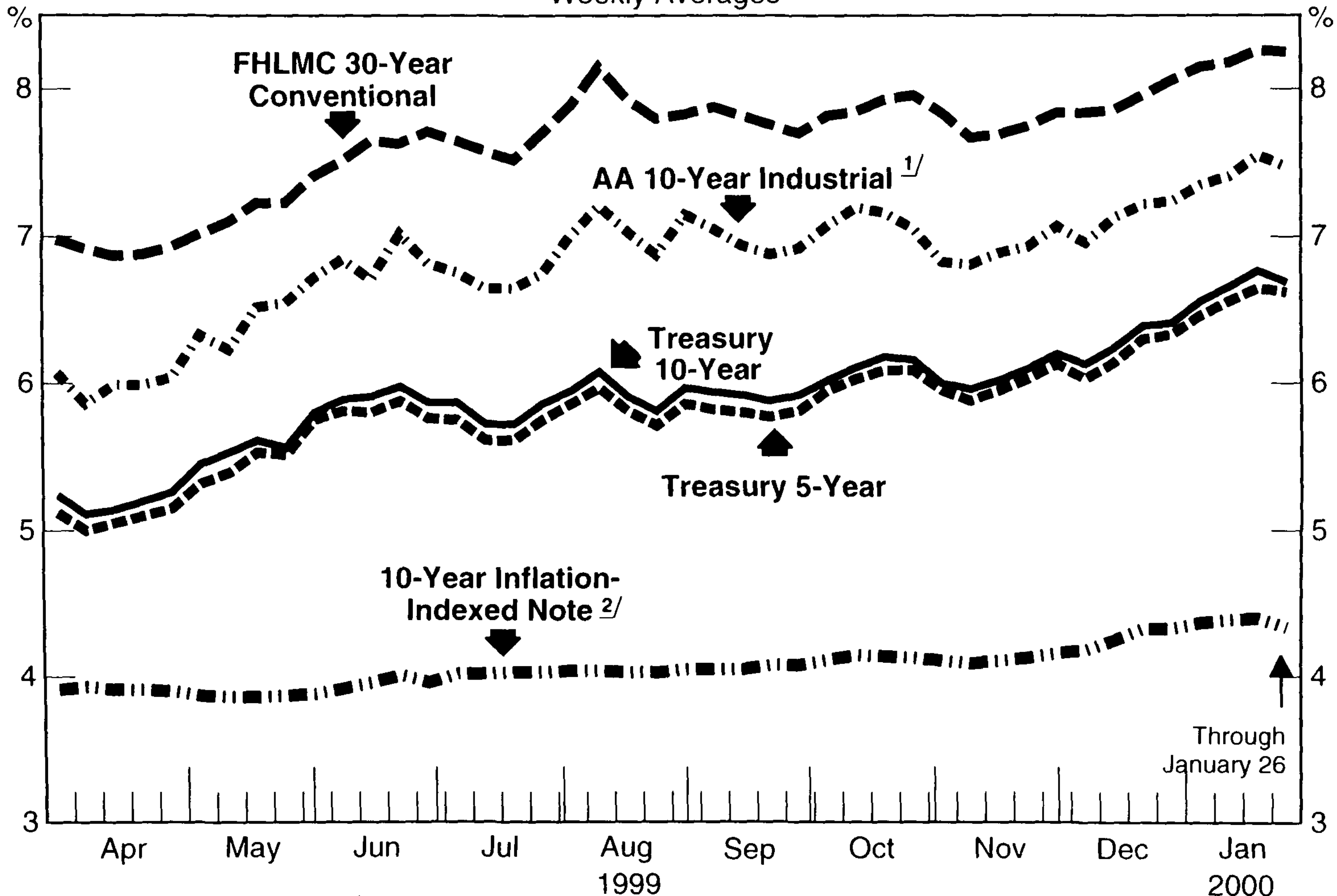


Department of the Treasury
Office of Market Finance

January 31, 2000-19

INTERMEDIATE TERM INTEREST RATES

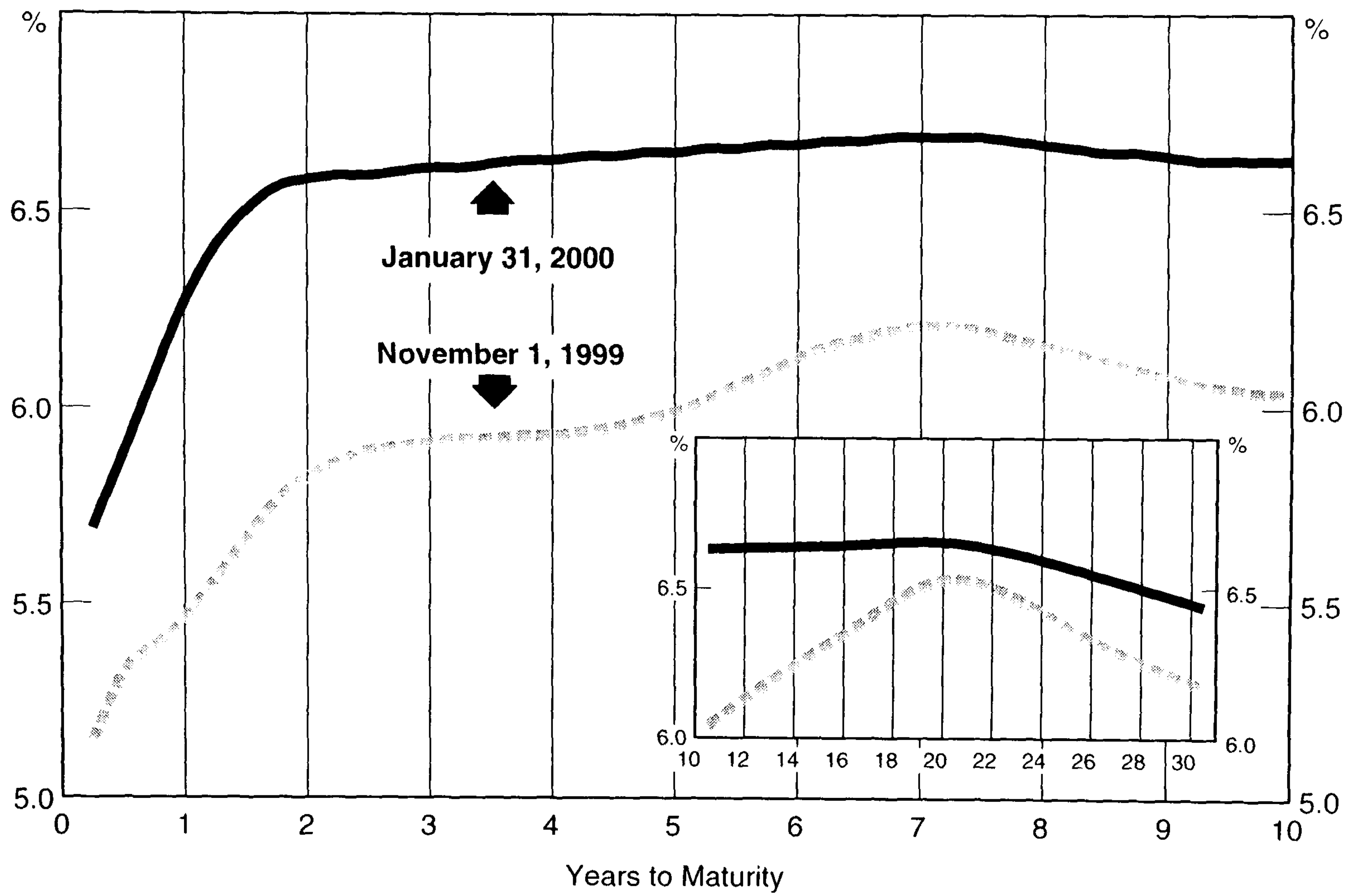
Weekly Averages



1/ Salomon 10-yr. AA Industrial is a Thursday rate.

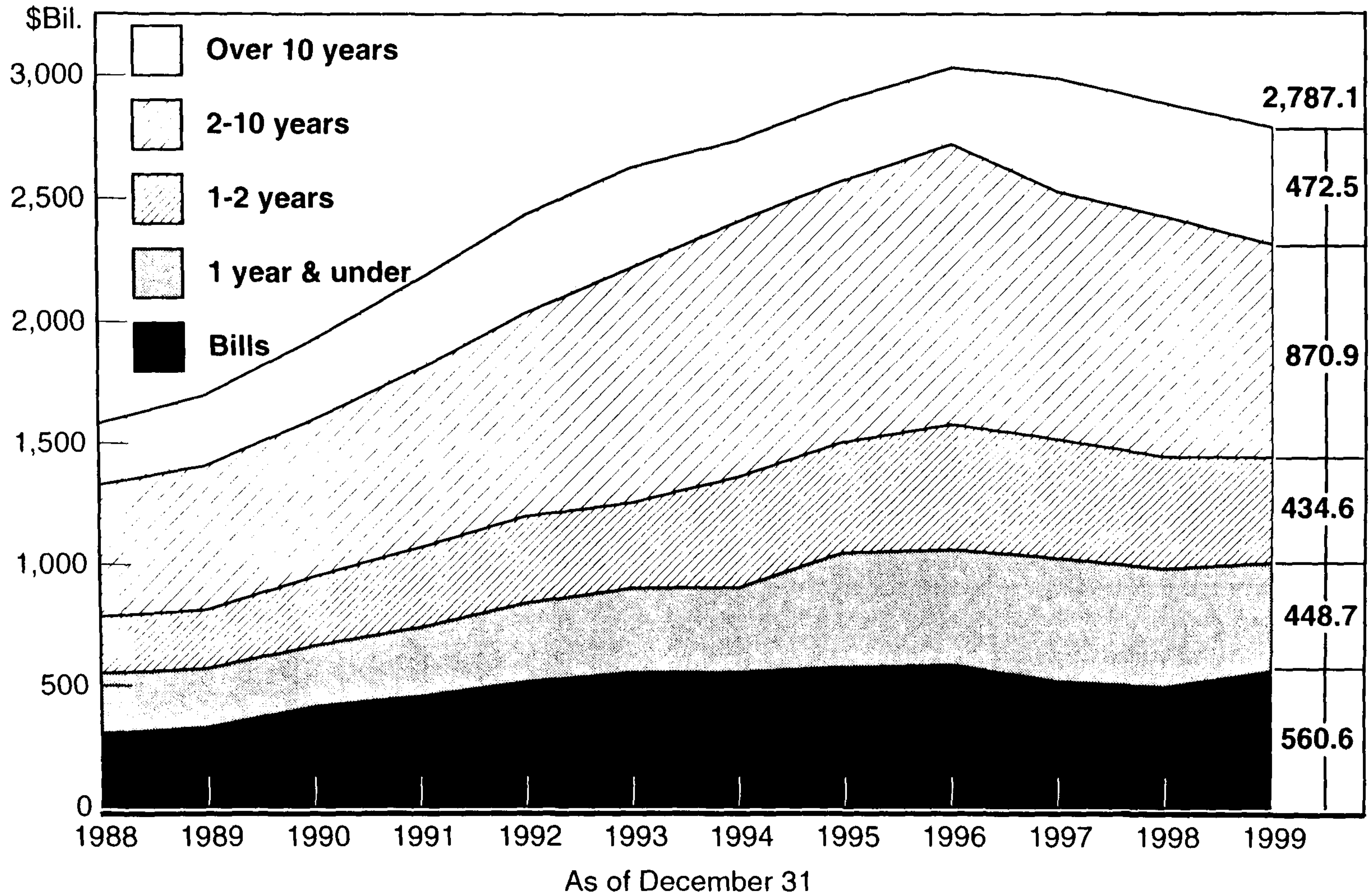
2/ The first 10-year inflation-indexed note settled on February 6, 1997.

MARKET YIELDS ON GOVERNMENTS



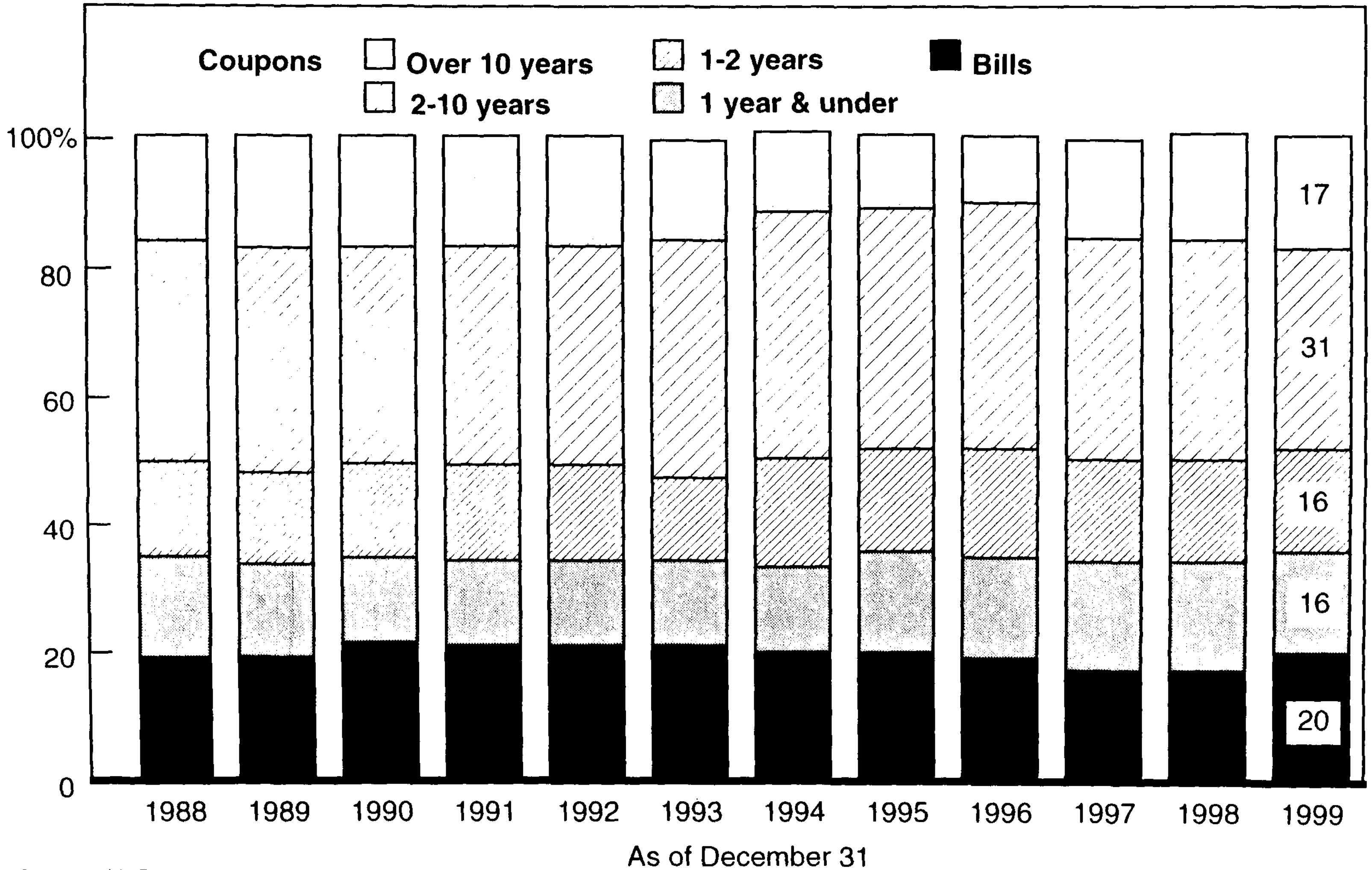
Department of the Treasury
Office of Market Finance

PRIVATE HOLDINGS OF TREASURY MARKETABLE DEBT BY MATURITY



PRIVATE HOLDINGS OF TREASURY MARKETABLE DEBT

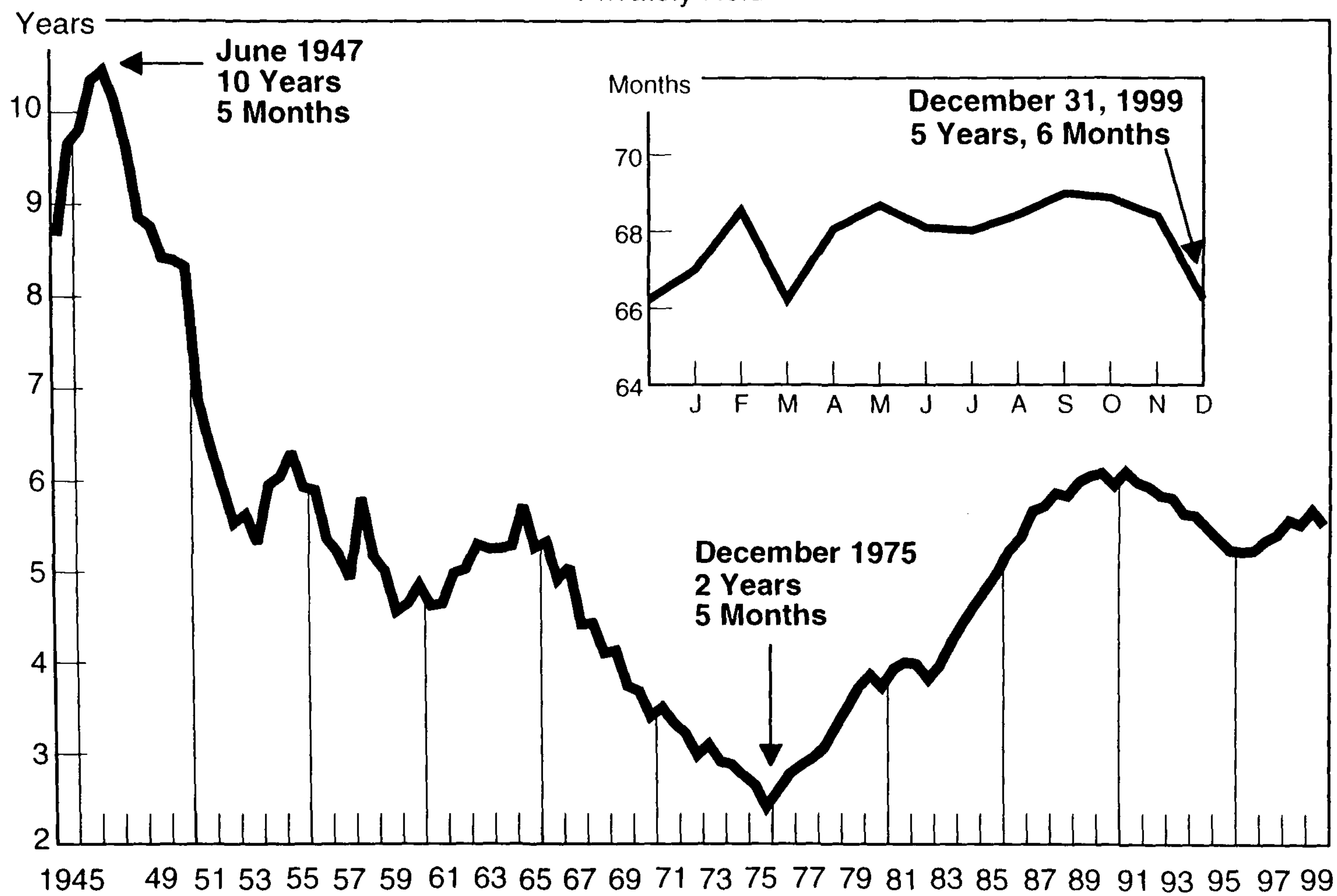
Percent Distribution By Maturity



Department of the Treasury
Office of Market Finance

AVERAGE LENGTH OF THE MARKETABLE DEBT[1]

Privately Held



1 Excludes inflation-indexed securities; including IIS the average length was 5 years, 10 months. as of December 31, 1999.

Department of the Treasury
Office of Market Finance

January 31. 2000-24

MATURING COUPON ISSUES

November 1999 — March 2000

(in millions of dollars)

Maturing Coupons			December 31, 1999			
			Total	Held by		
				Federal Reserve	Private Investors	Foreign[1] Investors
8 1/2%	Note	02/15/00	10,673	1,304	9,369	100
5 7/8%	Note	02/15/00	20,421	2,166	18,255	3,594
7 1/8%	Note	02/29/00	12,496	1,663	10,833	809
5 1/2%	Note	02/29/00	17,776	1,555	16,221	1,673
6 7/8%	Note	03/31/00	13,188	1,417	11,771	1,464
5 1/2%	Note	03/31/00	17,026	2,098	14,928	2,093
5 1/2%	Note	04/15/00	10,535	568	9,967	1,226
6 3/4%	Note	04/30/00	12,433	1,720	10,713	1,862
5 5/8%	Note	04/30/00	15,634	2,149	13,485	3,367
8 7/8%	Note	05/15/00	10,496	486	10,010	49
6 3/8%	Note	05/15/00	20,763	2,927	17,836	5,532
8 1/4%	Bond	05/31/00[2]	4,224	2,177[3]	2,047	0
6 1/4%	Note	05/31/00	12,752	1,614	11,138	1,681
5 1/2%	Note	05/31/00	16,580	2,224	14,356	4,469
5 7/8%	Note	06/30/00	12,464	1,571	10,893	3,783
5 3/8%	Note	06/30/00	14,939	1,538	13,401	2,471
Totals			222,400	27,177	195,223	34,171

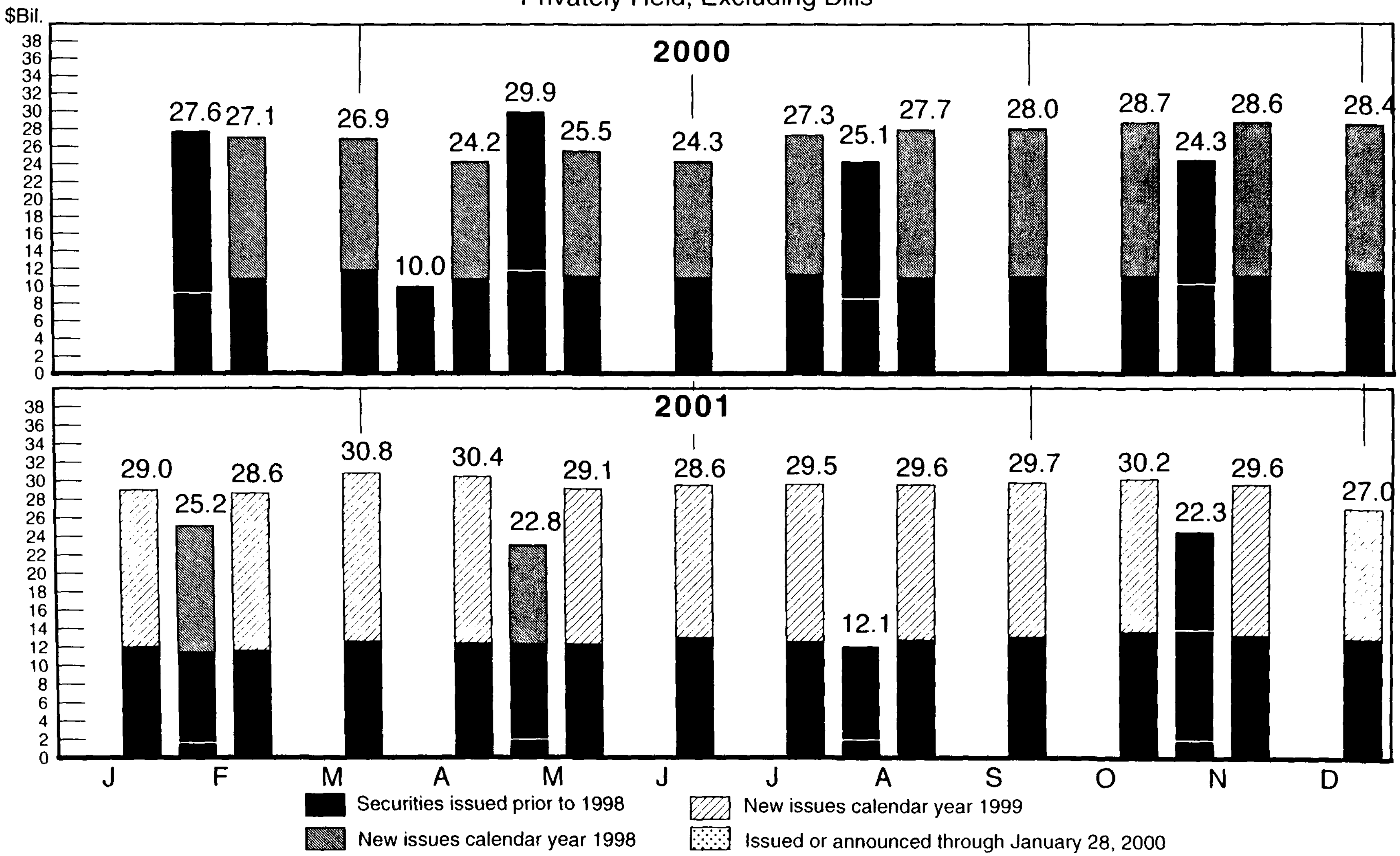
1/ F.R.B. custody accounts for foreign official institutions; included in Private Investors.

2/ On January 14, Treasury announced the call for redemption at par on May 15, 2000 the 8 1/4% 2000-05, issued May 15, 1975, due May 15, 2005 (CUSIP NO. 912810BU1).

3/ Government account holdings included.

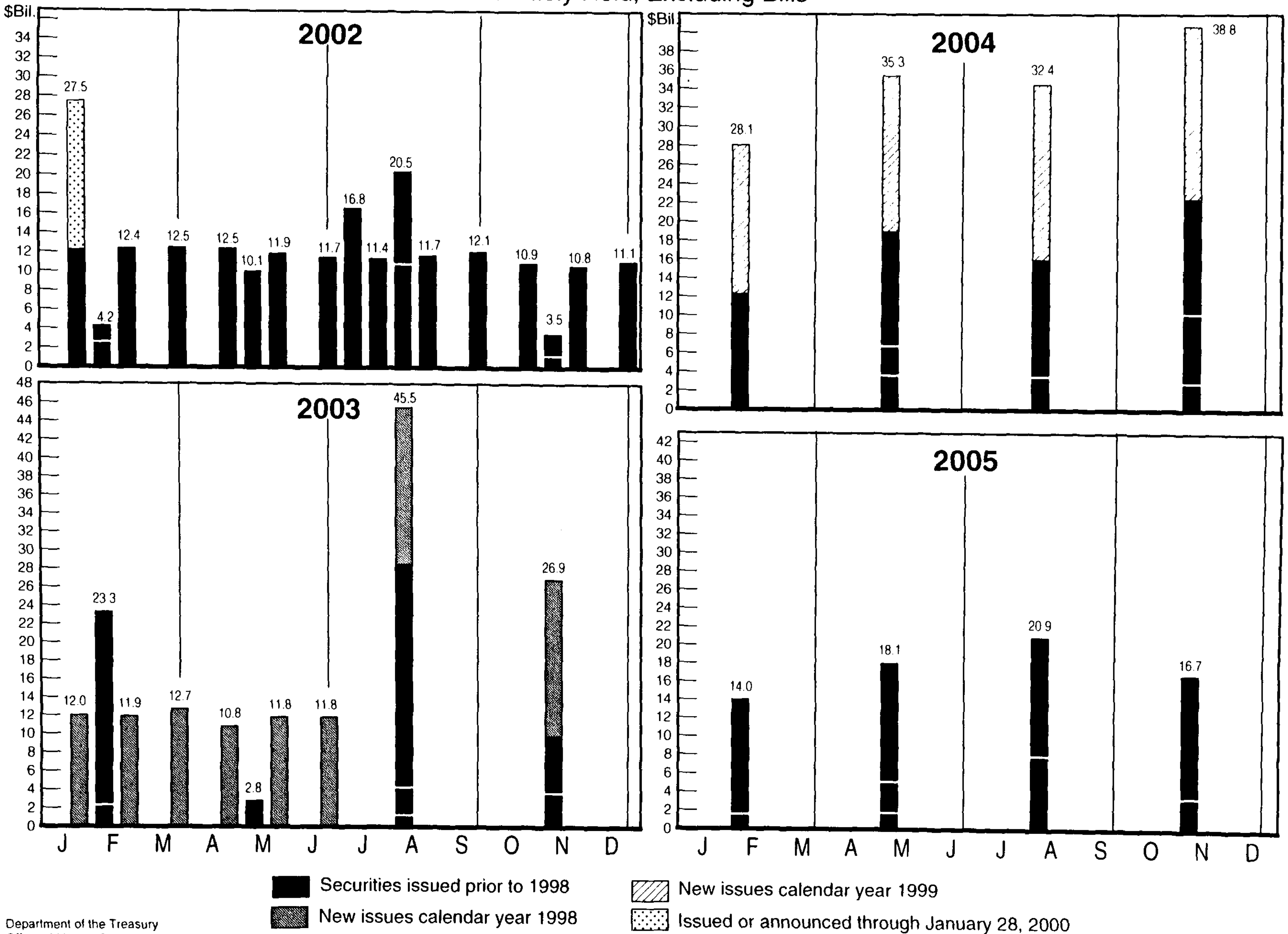
TREASURY MARKETABLE MATURITIES

Privately Held, Excluding Bills



TREASURY MARKETABLE MATURITIES

Privately Held, Excluding Bills

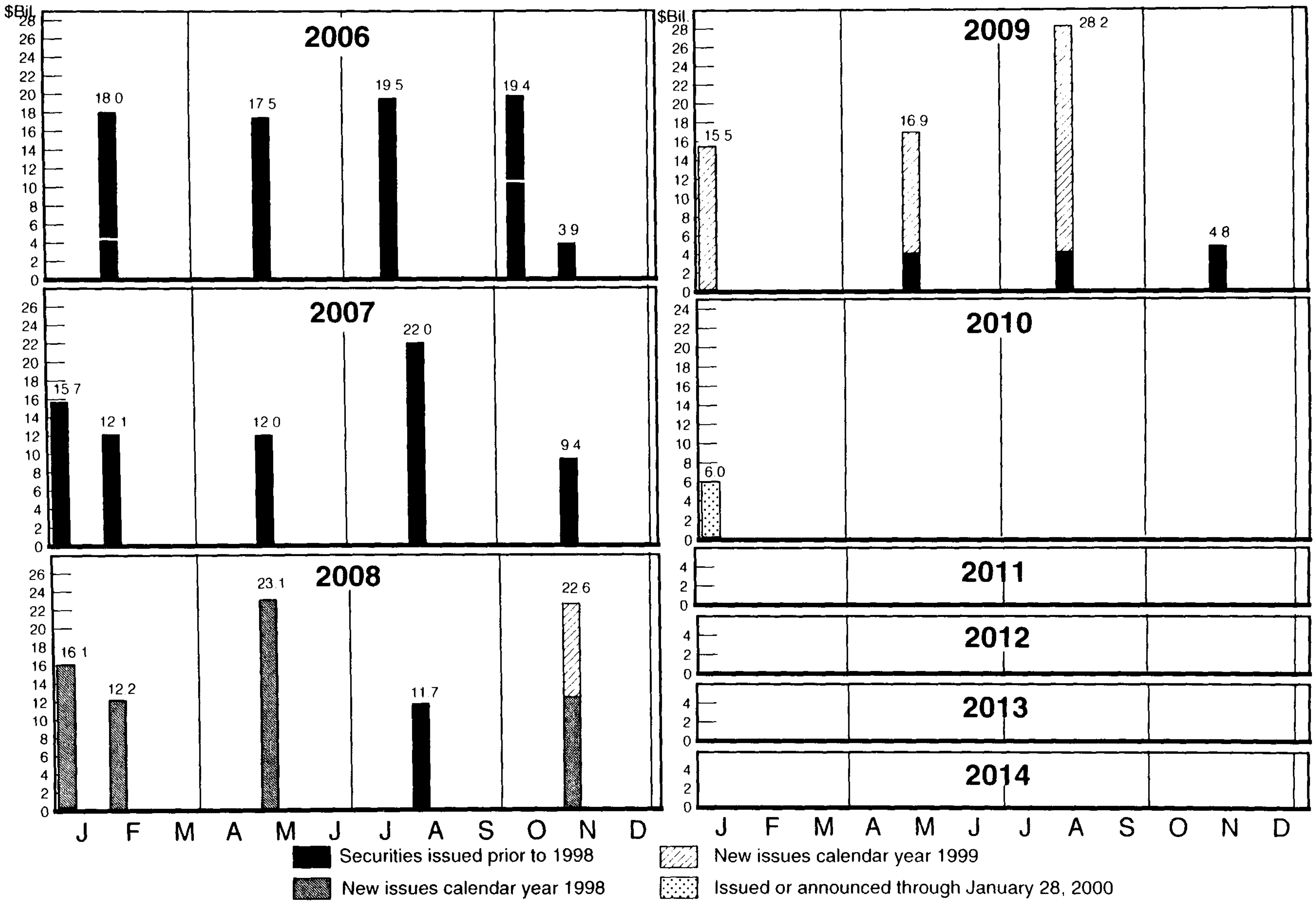


Department of the Treasury
Office of Market Finance

January 31, 2000-27

TREASURY MARKETABLE MATURITIES

Privately Held, Excluding Bills



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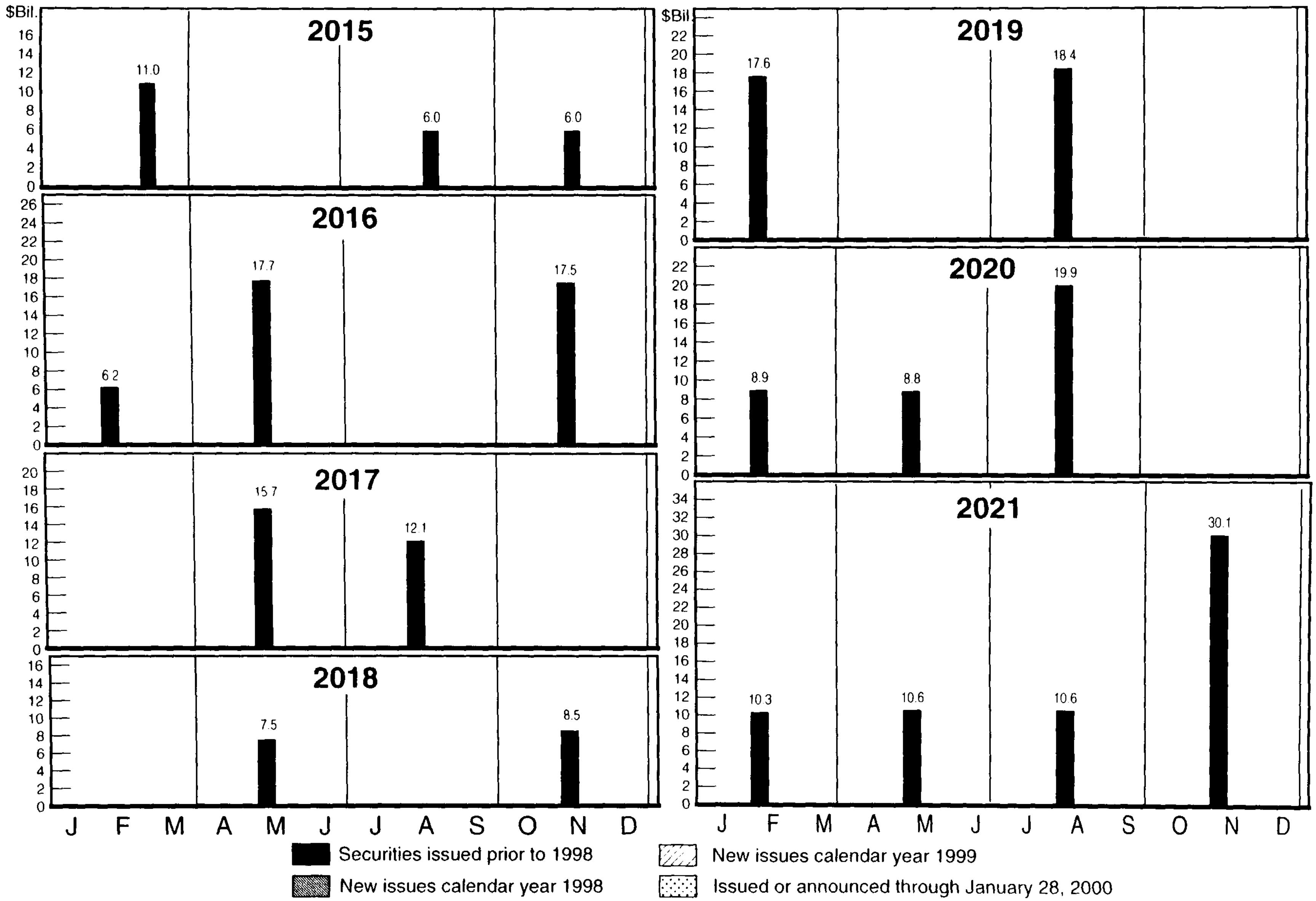
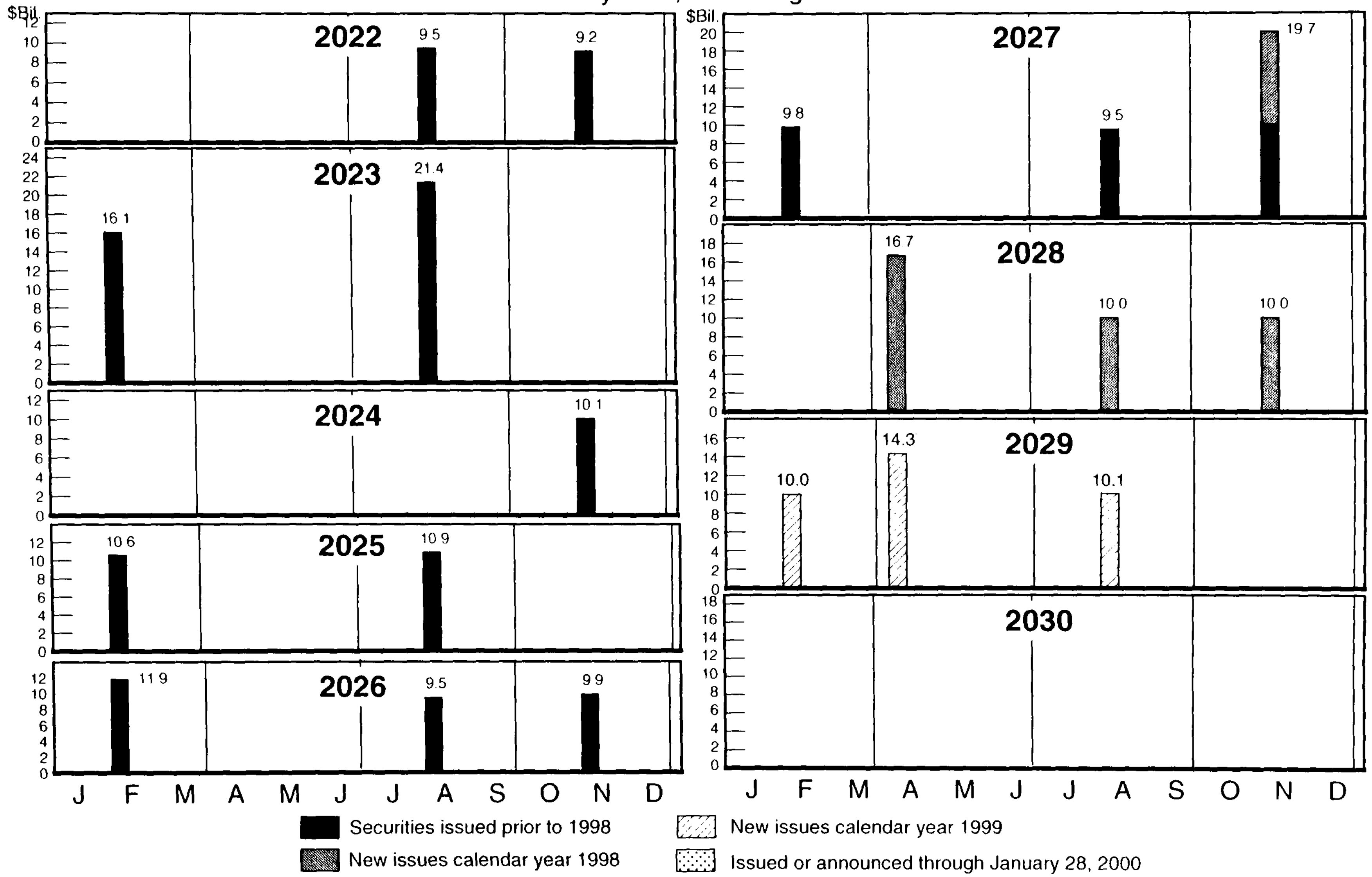
TREASURY MARKETABLE MATURITIES

Privately Held, Excluding Bills



TREASURY MARKETABLE MATURITIES

Privately Held, Excluding Bills



TENTATIVE SCHEDULE OF ISSUES TO BE ANNOUNCED AND AUCTIONED IN FEBRUARY 2000 1/

Monday	Tuesday	Wednesday	Thursday	Friday
	1 Auction 52 week 2/	2	3	4
7	8 Auction 5 year note 3/	9 Auction 10 year note 3/	10 Auction 30 year bond 3/	11
14	15	16 Announce 2 year note	17	18
21 Holiday	22	23 Auction 2 year note 4/	24 Announce 52 week	25
28	29 Auction 52 week 5/			

1/ Does not include weekly bills
2/ For settlement February 3
3/ For settlement February 15
4/ For settlement February 29
5/ For settlement March 2

TENTATIVE SCHEDULE OF ISSUES TO BE ANNOUNCED AND AUCTIONED IN MARCH 2000 1/

Monday	Tuesday	Wednesday	Thursday	Friday
		1	2	3
6	7	8	9	10
13	14	15	16	17
20	21	22 Announce 2 year note	23	24
27	28	29 Auction 2 year note 2/	30	31

1/ Does not include weekly bills
2/ For settlement March 31

TENTATIVE SCHEDULE OF ISSUES TO BE ANNOUNCED AND AUCTIONED IN APRIL 2000 1/

Monday	Tuesday	Wednesday	Thursday	Friday
3	4	5 Announce Inflation-indexed Bond	6	7
10	11	12 Auction Inflation-indexed Bond 2/	13	14
17	18	19 Announce 2 year	20	21
24	25	26 Auction 2 year 3/	27	28

1/ Does not include weekly bills
2/ For settlement April 17
3/ For settlement May 1

MINUTES OF THE MEETING OF THE TREASURY BORROWING ADVISORY COMMITTEE OF THE BOND MARKET ASSOCIATION
February 1, 2000

The Committee convened at 9:00 a.m. at the Treasury Department for the portion of the meeting that was open to the public. All members were present except Messrs. White and Lyski. The Federal Register announcement of the meeting and a list of Committee members are attached.

Under Secretary for Domestic Finance, Gary Gensler, welcomed the Committee and the public to the meeting. John Auten, Director, Office of Macroeconomic Analysis, summarized the current state of the U.S. economy (statement attached). Paul Malvey, Acting Director, Office of Market Finance, presented the chart show, updating Treasury borrowing estimates and historical debt and interest rate statistics.

The public meeting ended at 9:24 a.m.

The Committee reconvened in closed session at the Madison Hotel at 10:20 a.m. All members were present except Messrs. White and Lyski. Assistant Secretary for Financial Markets, Lee Sachs, gave the Committee the charge, which is also attached.

The Committee began by reviewing long-run proforma financing plans (attached) as a basis for discussing the question of how Treasury should make average maturity decisions as the national debt is paid down. The Committee noted that there is no research regarding the optimal average maturity of debt, but that in an environment of declining debt it seemed irrational to lengthen the average maturity. Therefore, they recommended a shortening in the average maturity, after any up drift is first stabilized, as the debt is paid down. To accomplish this, they recommend Treasury commit to reducing longer-term debt issuance and to conduct buybacks. However, one result of this will likely be that liquidity in the long-end of the Treasury market is significantly reduced. The Committee repeatedly emphasized that inflation-indexed securities (IIS) should be greatly reduced as part of the overall plan to decrease longer-term debt.

The discussion then turned to other adjustments Treasury needs to make to its financing plans over the shorter term. As frequently noted in previous Committee meetings over the past year, the Committee expressed a preference for eliminating at least one 52-week bill per quarter and leaving the 2-year auction schedule as is. However, members thought that to be able to reliquify the 13- and 26-week bills, the 52-week bills should be reduced to a quarterly cycle. Accordingly, the Committee recommended cutting 52-week bills from thirteen per year (one every four weeks) to four per year (one every thirteen weeks), beginning with a 52-week bill thirteen weeks after the bill that settles on March 2. If there is opportunity, some of the financing should be redistributed to the regular weekly bills. Members reiterated that the 52-week bill is a candidate for elimination in the future, as it is viewed as providing the least utility to Treasury and the market relative to other offerings.

On the question of a regular reopening policy, the consensus of the Committee members was that such a policy would have a positive impact on liquidity, particularly if the fiscal outlook continues positive, and with the anticipated reductions in auction sizes. The consensus of the Committee is to have a systematic pattern of reopenings of the 10-year and 30-year securities. From a liquidity perspective, the Committee recommended that Treasury issue a large new 30-year bond at this refunding, followed by a smaller reopening.

The Committee recommended a second reopening of the 6% 10-year notes of 8/15/09. By a vote of 11 to 5 with 1 abstention, the Committee recommended issuing $10 billion of a new 30 1/4 year bond. The 30 1/4 -year maturity reflected a Committee preference for the more popular May and November coupons. Regarding the 10-year note, the Committee recommended a second reopening of the 10-year note, for $8 billion, for liquidity reasons and also, to regularize a cycle for new 10-year note issuance in May and November.

Looking ahead to the April-June quarter the Committee recommended that Treasury issue $10 billion of new 10-year notes and $14 billion of new 5-year notes at the May quarterly refunding. They also proposed that Treasury announce, either at this refunding or some time before the April 30-year IIS auction, that we will eliminate one 30-year IIS per year. They cited several reasons for this move: current market conditions are different than at the implementation of the program, both with regard to forecasted surpluses and higher real rates; the negative impact on the liquidity of other sectors of the Treasury market; cost structure versus nominal securities; the lengthening impact of IIS on the average maturity of the debt; and the relative proportion of debt represented by IIS. During the discussion on IIS, some members suggested completely eliminating the 30-year, while maintaining the 10-year program. Other members suggested another alternative might be to do large/small reopenings with 30-year IIS, for example, issuing a new security at $6 billion in April with a reopening of $3 billion in October.

Returning to the question of buybacks, some members of the Committee recommended a day or two lead time, at least initially, but the consensus was to shorten the lead time to that comparable to what the Fed allows in a coupon pass. Regarding the size of buyback operations, the Committee expressed a preference for eventually more sizeable operations consistent with market conditions.

The Committee next discussed the question regarding the implications for financial markets and the possible risks to the government as Treasury debt declines. With regard to hedging and pricing practices, members reported substantial increases in the use of agencies and swaps as hedging vehicles. In addition, they noted agency and swaps use by broader classes of investors, including end users and dealers, with some members suggesting that end users were utilizing them to an even greater extent than dealers. Members of the Committee noted that the liquidity of these instruments has grown in a favorable market environment, and cautioned that it is still uncertain and unproven how these instruments will perform under more adverse market conditions.

With regard to the increasing globalization of the fixed income markets, members noted that, while in the past Treasuries have been the benchmark, as European and other markets grow while Treasury debt declines, Treasuries will soon be less of a benchmark. Given this, and that about 40 percent of U.S. Treasury debt is held by foreign investors, the impact on the Treasury markets' benchmark status may be to diminish its importance more rapidly as foreign investors look for broader investment choices.

Concerning the growth of Government sponsored enterprises, members of the Committee again mentioned that increased agency debt has helped to provide hedging and pricing vehicles for participants. This, however, has been in a benign and untested credit environment. There was no consensus on how to assess the nature and severity of the potential risks to the Government of Government sponsored enterprises

The meeting adjourned at 12:23 p.m.

The Committee reconvened at the Madison Hotel at 6:20 p.m. All members were present except Messrs. White and Lyski. The Chairman presented the Committee report to Undersecretary Gensler, Assistant Secretary Sachs, and Deputy Assistant Secretary Paulus. A brief discussion followed the Chairman's presentation, but did not raise significant questions regarding the report's content.

The meeting adjourned at 6:30 p.m.

Paul F. Malvey
Acting Director.
Office of Market Finance
February 2, 2000

Certified by:

Kenneth M. deRegt, Chairman
Treasury Borrowing Advisory Committee
of The Bond Market Association
February 2, 2000

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Paul F. Malvey
Acting Director.
Office of Market Finance
February 2, 2000

Certified by:

Kenneth M. deRegt, Chairman
Treasury Borrowing Advisory Committee
of The Bond Market Association
February 2, 2000

February 2, 2000

COMMITTEE CHARGE

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

- Given the fiscal forecasts, Treasury needs to make additional adjustments to its financing plans this year. We are now seeking the Committee's specific advice regarding:

  - Reducing the frequency of issuance of 52-week bills or 2-year notes. If a reduction is recommended, what specific issues should we eliminate?
  - Announcing a regular reopening policy for the quarterly refunding issues.
  - How we should proceed initially with buybacks, in terms of targeted maturity ranges, notice period, and size of a given operation.

- The composition of a financing to refund approximately $27.6 billion of privately held notes maturing on February 15 and to issue from $30 billion to $35 billion in 5-year and 10-year notes and 30-year bonds. Depending upon the Committee's recommendation regarding regular reopenings should this financing range be adjusted?

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

- As the amount of Treasury debt has continued to decline, observers have commented on the implications for financial markets and possible risks to the government of the following. We would like the Committee's views on these issues.

  - The effects on hedging and pricing practices (including the use of derivatives) in fixed-income markets.
  - Increasing globalization of fixed income markets.
  - The growth of Government Sponsored Enterprises.

- How should average maturity decisions be made with respect to managing the national debt as we continue to reduce the stock of such debt?

February 2, 2000

COMMITTEE CHARGE

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

- Given the fiscal forecasts, Treasury needs to make additional adjustments to its financing plans this year. We are now seeking the Committee's specific advice regarding:

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91 (1979). To address whether this condition adequately protects affected employees, a petition for partial revocation under 49 U.S.C. 10502(d) must be filed. Provided no formal expression of intent to file an offer of financial assistance (OFA) has been received, this exemption will be effective on February 11, 2000, unless stayed pending reconsideration. Petitions to stay that do not involve environmental issues,[2] formal expressions of intent to file an OFA under 49 CFR 1152.27(c)(2),[3] and trail use/rail banking requests under 49 CFR 1152.29 must be filed by January 24, 2000. Petitions to reopen or requests for public use conditions under 49 CFR 1152.28 must be filed by February 1, 2000, with: Surface Transportation Board, Office of the Secretary, Case Control Unit, 1925 K Street, NW, Washington, DC 20423.

A copy of any petition filed with the Board should be sent to applicant's representative: James P. Gatlin, General Attorney, Union Pacific Railroad Company, 1416 Dodge Street, Room 830, Omaha, NE 68179.

If the verified notice contains fal or misleading information, the exem ion is void *ab initio*.

UP has filed an environmen report which addresses the effects, i ny, of the abandonment and disco nuance on the environment and hi oric resources. The Section of nvironmental Analysis (SEA) will iss an environmental assess nt (EA) by January 14, 2000. In ested persons may obtain a copy the EA by writing to SEA (Room 50 Surface Transportation ard, Washington, DC 20423) or by c ing SEA, at (202) 565–1545. Comm s on environmental and historic preservation matters must filed within 15 days after the EA becomes available to the public

Environmental, historic pres vation, public use, or trail use/rail b ing conditions will be imposed here appropriate, in a subseque decision.

Pursuant to the provisi s of 49 CFR 1152.29(e)(2), UP shall e a notice of consummation with t Board to signify that it has exercised e authority granted and fully a ndoned its line. If consummation h not been effected by UP's filing of a tice of consummation by January 12 001, and there are no legal or regu ory barriers to consumma n, the authority to abandon ll automatically expire.

Board ecisions and notices are availab on our website at "WW .STB.DOT.GOV."

D ided: January 5, 2000.

 the Board. David M. Konschnik, D ector, Office of Proceedings.

ernon A. Williams,

Secretary.

[FR Doc. 00–604 Filed 1–11–00; 8:45 a

BILLING CODE 4915–00–P

[2] The Boar ill grant a stay if an informed decision or vironmental issues (whether raised by a party by the Board's Section of Environ ntal Analysis in its independent nvesti ion) cannot be made before the exem on's effective date. *See Exemption of Out-of-S nce Rail Lines*, 5 I.C.C.2d 377 (1989). Any st for a stay should be filed as soon as possible ust the Board may take appropriate action before the exemption's effective date.

[3] Each offer of financial assistance must be ccompanied by the filing fee, which currently is et at $1000. *See* 49 CFR 1002.2(f)(25).

DEPARTMENT OF THE TREASURY

Departmental Offices, Debt Management Advisory Committee; Meeting

Notice is hereby given, pursuant to 5 U.S.C. App. § 10(a)(2), that a meeting will be held at the U.S. Treasury Department, 15th and Pennsylvania Avenue, N.W., Washington, D.C., on February 1, 2000, of the following debt management advisory committee: The Bond Market Association, Treasury Borrowing Advisory Committee.

The agenda for the meeting provides for a technical background briefing by Treasury staff, followed by a charge by the Secretary of the Treasury or his designate that the committee discuss particular issues, and a working session. Following the working session, the committee will present a written report of its recommendations.

The background briefing by Treasury staff will be held at 9:00 a.m. Eastern time and will be open to the public. T remaining sessions and the committ s reporting session will be closed to e public, pursuant to 5 U.S.C. App § 10(d).

The notice shall constitute y determination, pursuant to e authority placed in heads of depar ents by 5 U.S.C. App. § 10(d) and ested in me by Treasury Department rder No. 101–05, that the closed port ns of the meeting are concerned wit information that is exempt from di osure under 5 U.S.C. § 552b(c)(9)(A The public interest requires that uch meetings be closed to the public cause the Treasury Departme t requires frank and full advice om representatives of the finan al community prior to making its fina decision on major financing op rations. Historically, this advice has en offered by debt management advisory committees established by the several major segments of the financial community. When so utilized, such a committee is recognized to be an advisory committee under 5 U.S.C. App. § 3.

Although the Treasury's final announcement of financing plans may not reflect the recommendations provided in reports of the advisory committee, premature disclosure of the committee's deliberations and reports would be likely to lead to significant financial speculation in the securities market. Thus, these meetings fall within the exemption covered by 5 U.S.C. § 552b(c)(9)(A).

The Office of Financial Markets is responsible for maintaining records of debt management advisory committee meetings and for providing annual reports setting forth a summary of committee activities and such other matters as may be informative to the public consistent with the policy of 5 U.S.C. § 552b.

Dated: January 6, 2000.

Lee Sachs,

Assistant Secretary (Financial Markets).

[FR Doc. 00–688 Filed 1–11–00; 8:45 am]

BILLING CODE 4810–25–M

TREASURY BORROWING ADVISORY COMMITTEE OF THE BOND MARKET ASSOCIATION

CHAIRMAN

Kenneth M. deRegt
Managing Director
Morgan Stanley Dean Witter & Co.
1585 Broadway
New York, NY 10036

VICE CHAIRMAN

James R. Capra
President
Capra Asset Management, Inc.
555 Theodore Fremd Avenue
Suite C-204
Rye, NY 10580

Daniel S. Ahearn
President
Capital Markets Strategies Co.
50 Congress Street, Suite 816
Boston, MA 02109

Richard A. Axilrod
Managing Director
Moore Capital Management, Inc.
1251 Avenue of the Americas, 53rd Fl.
New York, NY 10020

Richard S. Davis
Senior Vice President –
Head of Fixed Income Investments
Metlife Investments
334 Madison Avenue, PO Box 633
Convent Station, NJ 07961-0633

Stanley Druckenmmiller
Managing Director
Soros Fund Management
888 7th Avenue, Suite 3300
New York, NY 10106

Stephen C. Francis
Vice Chairman
Fisher, Francis, Trees & Watts, Inc.
200 Park Avenue
New York, NY 10166

Lisa Hess
Managing Director
Zesiger Capital Group LLC
320 Park Avenue
New York, NY 10022

Gedale B. Horowitz
Senior Managing Director
Salomon Smith Barney
388 Greenwich Street, 39th Fl
New York, NY 10013-2396

William H. Pike
Managing Director
Chase Securities Inc.
270 Park Avenue
New York, NY 10017

Timothy W. Jay
Managing Director
Lehman Government Securities, Inc.
200 Vesey Street, 9th Fl.
New York, NY 10285

Joseph Rosenberg
Senior Investment Strategist
Loews Corp.
667 Madison Avenue
New York, NY 10021-8087

Thomas L. Kalaris
President
Barclays Capital Inc.
222 Broadway
New York, NY 10038

Morgan Stark
Principal
Ramius Capital Group
757 Third Avenue, 27th Fl.
New York, NY 10017

Barbara Kenworthy
Managing Director
of Mutual Funds – Taxable
Prudential Insurance
McCarter Highway
2 Gateway Center, 7th Fl;oor
Newark, NJ 07102-5029

Craig Wardlaw
Executive Vice President
Bank of America
Mail Code NCI 007-0606
Charlotte, NC 28255-0001

Wayne D. Lyski
Chairman & Chief Investment Officer
Alliance Fixed Income Investors
Alliance Capital Management Corporation
1345 Avenue of the Americas
New York, NY 10105

Mark B. Werner
Managing Director
JP Morgan Securities
60 Wall Street
New York, NY 10260

Michael Mortara
Partner, Co-Head
Fixed Income Division
Goldman, Sachs & Co.
85 Broad Street, 26th Fl.
New York, NY 10004

Charles D. White
Managing Director
Wells Fargo
Mail Station S4753-040
3300 West Sahara Avenue
Las Vegas, NV 89102

LONG RUN TREASURY FINANCING MODEL (1/27/00 update)

SCENARIO: BUDGET SURPLUS EQUAL TO NEW CBO ESTIMATES (OFF-BUDGET SURPLUS ONLY; "INFLATED" SCENARIO)
NO BUYBACKS
ASSUMES NET NONMKTABLE ISSUANCE EQUALS ZERO
ASSUMES ALL COUPONS ARE HELD AT CURRENT LEVELS

Marketable Issuance

	Total	Bills	Coupons	Coupons	---------------------- Coupons Gross ----------------------------							
FY	Net	Net	Net	Mat	Total	2	3	5	7	10	30	TIPS
1993	227.4	25.6	201.9	308.2	510.1	188.6	67.0	140.4	30.3	45.0	38.8	0.0
1994	186.7	39.0	147.7	352.4	500.1	217.1	72.0	138.8	0.0	50.2	22.0	0.0
1995	186.8	29.2	157.6	348.6	506.2	219.4	72.4	140.7	0.0	51.2	22.5	0.0
1996	140.0	29.7	110.3	439.6	549.9	235.5	78.3	151.7	0.0	62.4	22.0	0.0
1997	21.0	-59.7	80.7	480.7	561.4	220.5	74.9	154.6	0.0	57.0	30.0	24.4
1998	-109.4	-65.8	-43.6	505.0	461.4	187.0	38.5	125.0	0.0	46.5	30.0	34.4
1999	-98.0	16.4	-114.4	489.0	374.6	200.0	0.0	65.0	0.0	46.0	30.0	33.6
2000	-166.0	-47.8	-118.2	459.2	341.0	186.0	0.0	64.0	0.0	46.0	20.0	25.0
2001	-146.0	-45.6	-100.4	437.4	337.0	183.0	0.0	64.0	0.0	46.0	20.0	24.0
2002	-163.0	-58.4	-104.6	441.6	337.0	183.0	0.0	64.0	0.0	46.0	20.0	24.0
2003	-176.0	-150.4	-25.6	362.6	337.0	183.0	0.0	64.0	0.0	46.0	20.0	24.0
2004	-189.0	-220.1	31.1	305.9	337.0	183.0	0.0	64.0	0.0	46.0	20.0	24.0
2005	-205.0	-202.8	-2.2	339.2	337.0	183.0	0.0	64.0	0.0	46.0	20.0	24.0

Note: Net bill issuance is calculated as the residual, given the financing need and gross coupon issuance.

Outstandings

			------------- Coupons	---------------------------------				Average Maturity	
FY	Total	Bills	<1	1-5	5-10	>10	TIPS	w/oTIPS	w/TIPS
1988	1555.2	289.5	234.7	553.0	232.5	245.6	0	5.8	
1989	1654.7	310.1	236.6	578.3	247.4	282.1	0	6.0	
1990	1841.9	371.1	255.2	630.1	267.6	317.9	0	6.1	
1991	2113.8	438.2	275.6	761.2	280.6	358.2	0	6.0	
1992	2363.8	500.5	308.2	866.3	295.2	392.8	0	5.9	
1993	2562.3	506.3	351.8	978.7	306.7	418.8	0	5.8	
1994	2719.9	527.5	350.4	1128.3	290.0	423.6	0	5.7	
1995	2870.8	565.4	437.5	1157.5	290.1	420.3	0	5.3	
1996	3011.2	577.6	481.0	1212.3	306.6	433.8	0	5.3	
1997	2998.8	508.2	509.7	1199.0	306.6	452.3	24.4	5.3	5.4
.998	2856.6	441.7	498.9	1089.2	296.3	475.6	58.8	5.7	5.8
.999	2728.0	454.0	461.1	946.0	331.1	448.5	87.3	5.8	6.0
:000	2562.0	406.2	437.4	816.7	337.0	450.5	112.3	6.1	6.5
001	2416.0	360.6	441.6	683.4	341.3	450.9	136.3	6.3	6.8
002	2253.0	302.2	362.6	629.2	346.9	450.0	144.2	6.8	7.3
003	2077.0	151.8	305.9	629.5	354.8	448.8	168.2	7.5	8.1
004	1888.0	-68.3	339.2	603.5	355.6	447.8	192.2	8.3	9.0
005	1683.0	-271.1	339.2	578.6	355.9	446.1	216.2	9.4	10.2

Composition of Outstanding Debt (%)

FY			------------- Coupons	--------------			
	Total	Bills	<1	1-5	5-10	>10	TIPS
1988	100.0	18.6	15.1	35.6	14.9	15.8	0.0
1989	100.0	18.7	14.3	35.0	15.0	17.1	0.0
1990	100.0	20.1	13.9	34.2	14.5	17.3	0.0
1991	100.0	20.7	13.0	36.0	13.3	16.9	0.0
1992	100.0	21.2	13.0	36.7	12.5	16.6	0.0
1993	100.0	19.8	13.7	38.2	12.0	16.3	0.0
1994	100.0	19.4	12.9	41.5	10.7	15.6	0.0
1995	100.0	19.7	15.2	40.3	10.1	14.6	0.0
1996	100.0	19.2	16.0	40.3	10.2	14.4	0.0
1997	100.0	16.9	17.0	40.0	10.2	15.1	0.8
1998	100.0	15.4	17.4	38.1	10.4	16.6	2.1
1999	100.0	16.6	16.9	34.7	12.1	16.4	3.2
2000	100.0	15.9	17.1	31.9	13.2	17.6	4.4
2001	100.0	14.9	18.3	28.3	14.1	18.7	5.6
2002	100.0	13.5	16.2	28.2	15.5	20.1	6.5
2003	100.0	7.4	14.9	30.6	17.2	21.8	8.2
2004	100.0	-3.7	18.1	32.3	19.0	23.9	10.3
2005	100.0	-16.3	20.4	34.8	21.4	26.8	13.0

LONG RUN TREASURY FINANCING MODEL (1/27/00 update)

SCENARIO: BUDGET SURPLUS EQUAL TO NEW CBO ESTIMATES (OFF-BUDGET SURPLUS ONLY: "INFLATED" SCENARIO)
BUYBACK $25 BIL PER YEAR (AVG MATURITY OF BUYBACKS IS 20 YRS)
ASSUMES NET NONMKTABLE ISSUANCE EQUALS ZERO
ASSUMES ALL COUPONS ARE HELD AT CURRENT LEVELS

Marketable Issuance

	Total	Bills	Coupons	Coupons	---------- Coupons Gross ----------							
FY	Net	Net	Net	Mat	Total	2	3	5	7	10	30	TIPS
1993	227.4	25.6	201.9	308.2	510.1	188.6	67.0	140.4	30.3	45.0	38.8	0.0
1994	186.7	39.0	147.7	352.4	500.1	217.1	72.0	138.8	0.0	50.2	22.0	0.0
1995	186.8	29.2	157.6	348.6	506.2	219.4	72.4	140.7	0.0	51.2	22.5	0.0
1996	140.0	29.7	110.3	439.6	549.9	235.5	78.3	151.7	0.0	62.4	22.0	0.0
1997	21.0	-59.7	80.7	480.7	561.4	220.5	74.9	154.6	0.0	57.0	30.0	24.4
1998	-109.4	-65.8	-43.6	505.0	461.4	187.0	38.5	125.0	0.0	46.5	30.0	34.4
1999	-98.0	16.4	-114.4	489.0	374.6	200.0	0.0	65.0	0.0	46.0	30.0	33.6
2000	-166.0	-22.8	-118.2	459.2	341.0	186.0	0.0	64.0	0.0	46.0	20.0	25.0
2001	-146.0	-20.6	-100.4	437.4	337.0	183.0	0.0	64.0	0.0	46.0	20.0	24.0
2002	-163.0	-33.4	-104.6	441.6	337.0	183.0	0.0	64.0	0.0	46.0	20.0	24.0
2003	-176.0	-125.4	-25.6	362.6	337.0	183.0	0.0	64.0	0.0	46.0	20.0	24.0
2004	-189.0	-195.1	31.1	305.9	337.0	183.0	0.0	64.0	0.0	46.0	20.0	24.0
2005	-205.0	-177.8	-2.2	339.2	337.0	183.0	0.0	64.0	0.0	46.0	20.0	24.0

Note: Net bill issuance is calculated as the residual, given the financing need and gross coupon issuance.

Outstandings

			---------- Coupons ----------					Average Maturity	
FY	Total	Bills	<1	1-5	5-10	>10	TIPS	w/oTIPS	w/TIPS
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1989	1654.7	310.1	236.6	578.3	247.4	282.1	0	6.0	
1990	1841.9	371.1	255.2	630.1	267.6	317.9	0	6.1	
1991	2113.8	438.2	275.6	761.2	280.6	358.2	0	6.0	
1992	2363.8	500.5	308.2	866.3	295.2	392.8	0	5.9	
1993	2562.3	506.3	351.8	978.7	306.7	418.8	0	5.8	
1994	2719.9	527.5	350.4	1128.3	290.0	423.6	0	5.7	
1995	2870.8	565.4	437.5	1157.5	290.1	420.3	0	5.3	
1996	3011.2	577.6	481.0	1212.3	306.6	433.8	0	5.3	
1997	2998.8	508.2	509.7	1199.0	306.6	452.3	24.4	5.3	5.4
1998	2856.6	441.7	498.9	1089.2	296.3	475.6	58.8	5.7	5.8
1999	2728.0	454.0	461.1	946.0	331.1	448.5	87.3	5.8	6.0
2000	2562.0	431.2	437.4	816.7	337.0	425.5	112.3	5.9	6.3
2001	2416.0	410.6	441.6	683.4	341.3	400.9	136.3	5.9	6.4
2002	2253.0	377.2	362.6	629.2	346.9	375.0	144.2	6.1	6.7
2003	2077.0	251.8	305.9	629.5	354.8	348.8	168.2	6.4	7.1
2004	1888.0	56.7	339.2	603.5	355.6	322.8	192.2	6.8	7.7
2005	1683.0	-121.1	339.2	578.6	355.9	296.1	216.2	7.4	8.4

Composition of Outstanding Debt (%)

			---------- Coupons ----------				
FY	Total	Bills	<1	1-5	5-10	>10	TIPS
1988	100.0	18.6	15.1	35.6	14.9	15.8	0.0
1989	100.0	18.7	14.3	35.0	15.0	17.1	0.0
1990	100.0	20.1	13.9	34.2	14.5	17.3	0.0
1991	100.0	20.7	13.0	36.0	13.3	16.9	0.0
1992	100.0	21.2	13.0	36.7	12.5	16.6	0.0
1993	100.0	19.8	13.7	38.2	12.0	16.3	0.0
1994	100.0	19.4	12.9	41.5	10.7	15.6	0.0
1995	100.0	19.7	15.2	40.3	10.1	14.6	0.0
1996	100.0	19.2	16.0	40.3	10.2	14.4	0.0
1997	100.0	16.9	17.0	40.0	10.2	15.1	0.8
1998	100.0	15.4	17.4	38.1	10.4	16.6	2.1
1999	100.0	16.6	16.9	34.7	12.1	16.4	3.2
2000	100.0	16.8	17.1	31.9	13.2	16.6	4.4
2001	100.0	17.0	18.3	28.3	14.1	16.6	5.6
2002	100.0	16.9	16.2	28.2	15.5	16.8	6.5
2003	100.0	12.2	14.9	30.6	17.2	16.9	8.2
2004	100.0	3.0	18.1	32.3	19.0	17.3	10.3
2005	100.0	-7.3	20.4	34.8	21.4	17.8	13.0

LONG RUN TREASURY FINANCING MODEL (1/27/00 update)

SCENARIO: BUDGET SURPLUS EQUAL TO NEW CBO ESTIMATES (OFF-BUDGET SURPLUS ONLY; "INFLATED" SCENARIO)
BUYBACK $25 BIL PER YEAR (AVG MATURITY OF BUYBACKS IS 20 YRS)
ASSUMES NET NONMKTABLE ISSUANCE EQUALS ZERO
REDUCE 10'S AND 30'S TO AVG ISSUE SIZE OF $9 BIL, ALL OTHER COUPONS ARE HELD AT CURRENT LEVELS

Marketable Issuance

	Total	Bills	Coupons	Coupons	Coupons Gross							
FY	Net	Net	Net	Mat	Total	2	3	5	7	10	30	TIPS
1993	227.4	25.6	201.9	308.2	510.1	188.6	67.0	140.4	30.3	45.0	38.8	0.0
1994	186.7	39.0	147.7	352.4	500.1	217.1	72.0	138.8	0.0	50.2	22.0	0.0
1995	186.8	29.2	157.6	348.6	506.2	219.4	72.4	140.7	0.0	51.2	22.5	0.0
1996	140.0	29.7	110.3	439.6	549.9	235.5	78.3	151.7	0.0	62.4	22.0	0.0
1997	21.0	-59.7	80.7	480.7	561.4	220.5	74.9	154.6	0.0	57.0	30.0	24.4
1998	-109.4	-65.8	-43.6	505.0	461.4	187.0	38.5	125.0	0.0	46.5	30.0	34.4
1999	-98.0	16.4	-114.4	489.0	374.6	200.0	0.0	65.0	0.0	46.0	30.0	33.6
2000	-166.0	-12.8	-128.2	459.2	331.0	186.0	0.0	64.0	0.0	38.0	18.0	25.0
2001	-146.0	-10.6	-110.4	437.4	327.0	183.0	0.0	64.0	0.0	38.0	18.0	24.0
2002	-163.0	-23.4	-114.6	441.6	327.0	183.0	0.0	64.0	0.0	38.0	18.0	24.0
2003	-176.0	-115.4	-35.6	362.6	327.0	183.0	0.0	64.0	0.0	38.0	18.0	24.0
2004	-189.0	-185.1	21.1	305.9	327.0	183.0	0.0	64.0	0.0	38.0	18.0	24.0
2005	-205.0	-167.8	-12.2	339.2	327.0	183.0	0.0	64.0	0.0	38.0	18.0	24.0

Note: Net bill issuance is calculated as the residual, given the financing need and gross coupon issuance.

Outstandings

			Coupons					Average Maturity	
FY	Total	Bills	<1	1-5	5-10	>10	TIPS	w/oTIPS	w/TIPS
1988	1555.2	289.5	234.7	553.0	232.5	245.6	0	5.8	
1989	1654.7	310.1	236.6	578.3	247.4	282.1	0	6.0	
1990	1841.9	371.1	255.2	630.1	267.6	317.9	0	6.1	
1991	2113.8	438.2	275.6	761.2	280.6	358.2	0	6.0	
1992	2363.8	500.5	308.2	866.3	295.2	392.8	0	5.9	
1993	2562.3	506.3	351.8	978.7	306.7	418.8	0	5.8	
1994	2719.9	527.5	350.4	1128.3	290.0	423.6	0	5.7	
1995	2870.8	565.4	437.5	1157.5	290.1	420.3	0	5.3	
1996	3011.2	577.6	481.0	1212.3	306.6	433.8	0	5.3	
1997	2998.8	508.2	509.7	1199.0	306.6	452.3	24.4	5.3	5.4
1998	2856.6	441.7	498.9	1089.2	296.3	475.6	58.8	5.7	5.8
1999	2728.0	454.0	461.1	946.0	331.1	448.5	87.3	5.8	6.0
2000	2562.0	441.2	437.4	816.7	329.0	423.5	112.3	5.8	6.2
2001	2416.0	430.6	441.6	683.4	325.3	396.9	136.3	5.8	6.3
2002	2253.0	407.2	362.6	629.2	322.9	369.0	144.2	6.0	6.5
2003	2077.0	291.8	305.9	629.5	322.8	340.8	168.2	6.2	6.9
2004	1888.0	106.7	339.2	603.5	315.6	312.8	192.2	6.5	7.4
2005	1683.0	-61.1	339.2	577.0	309.5	284.1	216.2	7.0	8.1

Composition of Outstanding Debt (%)

			Coupons				
FY	Total	Bills	<1	1-5	5-10	>10	TIPS
1988	100.0	18.6	15.1	35.6	14.9	15.8	0.0
1989	100.0	18.7	14.3	35.0	15.0	17.1	0.0
1990	100.0	20.1	13.9	34.2	14.5	17.3	0.0
1991	100.0	20.7	13.0	36.0	13.3	16.9	0.0
1992	100.0	21.2	13.0	36.7	12.5	16.6	0.0
1993	100.0	19.8	13.7	38.2	12.0	16.3	0.0
1994	100.0	19.4	12.9	41.5	10.7	15.6	0.0
1995	100.0	19.7	15.2	40.3	10.1	14.6	0.0
1996	100.0	19.2	16.0	40.3	10.2	14.4	0.0
1997	100.0	16.9	17.0	40.0	10.2	15.1	0.8
1998	100.0	15.4	17.4	38.1	10.4	16.6	2.1
1999	100.0	16.6	16.9	34.7	12.1	16.4	3.2
2000	100.0	17.2	17.1	31.9	12.8	16.5	4.4
2001	100.0	17.8	18.3	28.3	13.5	16.4	5.6
2002	100.0	18.2	16.2	28.2	14.4	16.5	6.5
2003	100.0	14.2	14.9	30.6	15.7	16.6	8.2
2004	100.0	5.7	18.1	32.3	16.9	16.7	10.3
2005	100.0	-3.7	20.4	34.7	18.6	17.1	13.0

LONG RUN TREASURY FINANCING MODEL (1/27/00 update)

SCENARIO: BUDGET SURPLUS EQUAL TO NEW CBO ESTIMATES (OFF-BUDGET SURPLUS ONLY; "INFLATED" SCENARIO)
BUYBACK $25 BIL IN 2000, $50 BIL PER YEAR THEREAFTER (AVG MATURITY OF BUYBACKS IS 20 YRS)
ASSUMES NET NONMKTABLE ISSUANCE EQUALS ZERO
REDUCE 10'S AND 30'S TO AVG ISSUE SIZE OF $9 BIL

Marketable Issuance

FY	Total Net	Bills Net	Coupons Net	Coupons Mat	Coupons Gross Total	2	3	5	7	10	30	TIPS
1993	227.4	25.6	201.9	308.2	510.1	188.6	67.0	140.4	30.3	45.0	38.8	0.0
1994	186.7	39.0	147.7	352.4	500.1	217.1	72.0	138.8	0.0	50.2	22.0	0.0
1995	186.8	29.2	157.6	348.6	506.2	219.4	72.4	140.7	0.0	51.2	22.5	0.0
1996	140.0	29.7	110.3	439.6	549.9	235.5	78.3	151.7	0.0	62.4	22.0	0.0
1997	21.0	-59.7	80.7	480.7	561.4	220.5	74.9	154.6	0.0	57.0	30.0	24.4
1998	-109.4	-65.8	-43.6	505.0	461.4	187.0	38.5	125.0	0.0	46.5	30.0	34.4
1999	-98.0	16.4	-114.4	489.0	374.6	200.0	0.0	65.0	0.0	46.0	30.0	33.6
2000	-166.0	-12.8	-128.2	459.2	331.0	186.0	0.0	64.0	0.0	38.0	18.0	25.0
2001	-146.0	14.4	-110.4	437.4	327.0	183.0	0.0	64.0	0.0	38.0	18.0	24.0
2002	-163.0	1.6	-114.6	441.6	327.0	183.0	0.0	64.0	0.0	38.0	18.0	24.0
2003	-176.0	-90.4	-35.6	362.6	327.0	183.0	0.0	64.0	0.0	38.0	18.0	24.0
2004	-189.0	-160.1	21.1	305.9	327.0	183.0	0.0	64.0	0.0	38.0	18.0	24.0
2005	-205.0	-142.8	-12.2	339.2	327.0	183.0	0.0	64.0	0.0	38.0	18.0	24.0

Note: Net bill issuance is calculated as the residual, given the financing need and gross coupon issuance.

Outstandings

FY	Total	Bills	Coupons <1	1-5	5-10	>10	TIPS	Average Maturity w/oTIPS	w/TIPS
1988	1555.2	289.5	234.7	553.0	232.5	245.6	0	5.8	
1989	1654.7	310.1	236.6	578.3	247.4	282.1	0	6.0	
1990	1841.9	371.1	255.2	630.1	267.6	317.9	0	6.1	
1991	2113.8	438.2	275.6	761.2	280.6	358.2	0	6.0	
1992	2363.8	500.5	308.2	866.3	295.2	392.8	0	5.9	
1993	2562.3	506.3	351.8	978.7	306.7	418.8	0	5.8	
1994	2719.9	527.5	350.4	1128.3	290.0	423.6	0	5.7	
1995	2870.8	565.4	437.5	1157.5	290.1	420.3	0	5.3	
1996	3011.2	577.6	481.0	1212.3	306.6	433.8	0	5.3	
1997	2998.8	508.2	509.7	1199.0	306.6	452.3	24.4	5.3	5.4
1998	2856.6	441.7	498.9	1089.2	296.3	475.6	58.8	5.7	5.8
1999	2728.0	454.0	461.1	946.0	331.1	448.5	87.3	5.8	6.0
2000	2562.0	441.2	437.4	816.7	329.0	423.5	112.3	5.8	6.2
2001	2416.0	455.6	441.6	683.4	325.3	371.9	136.3	5.6	6.1
2002	2253.0	457.2	362.6	629.2	322.9	319.0	144.2	5.5	6.1
2003	2077.0	366.8	305.9	629.5	322.8	265.8	168.2	5.4	6.2
2004	1888.0	206.7	339.2	603.5	315.6	212.8	192.2	5.4	6.4
2005	1683.0	63.9	339.2	577.0	309.5	159.1	216.2	5.3	6.6

Composition of Outstanding Debt (%)

FY	Total	Bills	Coupons <1	1-5	5-10	>10	TIPS
1988	100.0	18.6	15.1	35.6	14.9	15.8	0.0
1989	100.0	18.7	14.3	35.0	15.0	17.1	0.0
1990	100.0	20.1	13.9	34.2	14.5	17.3	0.0
1991	100.0	20.7	13.0	36.0	13.3	16.9	0.0
1992	100.0	21.2	13.0	36.7	12.5	16.6	0.0
1993	100.0	19.8	13.7	38.2	12.0	16.3	0.0
1994	100.0	19.4	12.9	41.5	10.7	15.6	0.0
1995	100.0	19.7	15.2	40.3	10.1	14.6	0.0
1996	100.0	19.2	16.0	40.3	10.2	14.4	0.0
1997	100.0	16.9	17.0	40.0	10.2	15.1	0.8
1998	100.0	15.4	17.4	38.1	10.4	16.6	2.1
1999	100.0	16.6	16.9	34.7	12.1	16.4	3.2
2000	100.0	17.2	17.1	31.9	12.8	16.5	4.4
2001	100.0	18.9	18.3	28.3	13.5	15.4	5.6
2002	100.0	20.5	16.2	28.2	14.4	14.3	6.5
2003	100.0	17.8	14.9	30.6	15.7	12.9	8.2
2004	100.0	11.1	18.1	32.3	16.9	11.4	10.3
2005	100.0	3.8	20.4	34.7	18.6	9.6	13.0

LONG RUN TREASURY FINANCING MODEL (1/27/00 update)

SCENARIO: BUDGET SURPLUS EQUAL TO NEW CBO ESTIMATES (OFF-BUDGET SURPLUS ONLY; 'INFLATED' SCENARIO)
BUYBACK $25 BIL IN 2000, $50 BIL PER YR THEREAFTER (AVG MATURITY OF BUYBACKS IS 20 YRS THRU 01 AND 14 IN 02-05
ASSUMES NET NONMKTABLE ISSUANCE EQUALS ZERO
REDUCE 10'S AND 30'S TO AVG ISSUE SIZE OF $9 BIL

Marketable Issuance

	Total	Bills	Coupons	Coupons	Coupons Gross							
FY	Net	Net	Net	Mat	Total	2	3	5	7	10	30	TIPS
1993	227.4	25.6	201.9	308.2	510.1	188.6	67.0	140.4	30.3	45.0	38.8	0.0
1994	186.7	39.0	147.7	352.4	500.1	217.1	72.0	138.8	0.0	50.2	22.0	0.0
1995	186.8	29.2	157.6	348.6	506.2	219.4	72.4	140.7	0.0	51.2	22.5	0.0
1996	140.0	29.7	110.3	439.6	549.9	235.5	78.3	151.7	0.0	62.4	22.0	0.0
1997	21.0	-59.7	80.7	480.7	561.4	220.5	74.9	154.6	0.0	57.0	30.0	24.4
1998	-109.4	-65.8	-43.6	505.0	461.4	187.0	38.5	125.0	0.0	46.5	30.0	34.4
1999	-98.0	16.4	-114.4	489.0	374.6	200.0	0.0	65.0	0.0	46.0	30.0	33.6
2000	-166.0	-12.8	-128.2	459.2	331.0	186.0	0.0	64.0	0.0	38.0	18.0	25.0
2001	-146.0	14.4	-110.4	437.4	327.0	183.0	0.0	64.0	0.0	38.0	18.0	24.0
2002	-163.0	1.6	-114.6	441.6	327.0	183.0	0.0	64.0	0.0	38.0	18.0	24.0
2003	-176.0	-90.4	-35.6	362.6	327.0	183.0	0.0	64.0	0.0	38.0	18.0	24.0
2004	-189.0	-160.1	21.1	305.9	327.0	183.0	0.0	64.0	0.0	38.0	18.0	24.0
2005	-205.0	-142.8	-12.2	339.2	327.0	183.0	0.0	64.0	0.0	38.0	18.0	24.0

Note: Net bill issuance is calculated as the residual, given the financing need and gross coupon issuance.

Outstandings

			Coupons					Average Maturity	
FY	Total	Bills	<1	1-5	5-10	>10	TIPS	w/oTIPS	w/TIPS
1988	1555.2	289.5	234.7	553.0	232.5	245.6	0	5.8	
1989	1654.7	310.1	236.6	578.3	247.4	282.1	0	6.0	
1990	1841.9	371.1	255.2	630.1	267.6	317.9	0	6.1	
1991	2113.8	438.2	275.6	761.2	280.6	358.2	0	6.0	
1992	2363.8	500.5	308.2	866.3	295.2	392.8	0	5.9	
1993	2562.3	506.3	351.8	978.7	306.7	418.8	0	5.8	
1994	2719.9	527.5	350.4	1128.3	290.0	423.6	0	5.7	
1995	2870.8	565.4	437.5	1157.5	290.1	420.3	0	5.3	
1996	3011.2	577.6	481.0	1212.3	306.6	433.8	0	5.3	
1997	2998.8	508.2	509.7	1199.0	306.6	452.3	24.4	5.3	5.4
1998	2856.6	441.7	498.9	1089.2	296.3	475.6	58.8	5.7	5.8
1999	2728.0	454.0	461.1	946.0	331.1	448.5	87.3	5.8	6.0
2000	2562.0	441.2	437.4	816.7	329.0	423.5	112.3	5.8	6.2
2001	2416.0	455.6	441.6	683.4	325.3	371.9	136.3	5.6	6.1
2002	2253.0	457.2	362.6	629.2	297.9	344.0	144.2	5.6	6.2
2003	2077.0	366.8	305.9	629.5	272.8	315.8	168.2	5.8	6.5
2004	1888.0	206.7	339.2	603.5	240.6	287.8	192.2	5.9	6.9
2005	1683.0	63.9	339.2	577.0	209.5	259.1	216.2	6.2	7.3

Composition of Outstanding Debt (%)

			Coupons				
FY	Total	Bills	<1	1-5	5-10	>10	TIPS
1988	100.0	18.6	15.1	35.6	14.9	15.8	0.0
1989	100.0	18.7	14.3	35.0	15.0	17.1	0.0
1990	100.0	20.1	13.9	34.2	14.5	17.3	0.0
1991	100.0	20.7	13.0	36.0	13.3	16.9	0.0
1992	100.0	21.2	13.0	36.7	12.5	16.6	0.0
1993	100.0	19.8	13.7	38.2	12.0	16.3	0.0
1994	100.0	19.4	12.9	41.5	10.7	15.6	0.0
1995	100.0	19.7	15.2	40.3	10.1	14.6	0.0
1996	100.0	19.2	16.0	40.3	10.2	14.4	0.0
1997	100.0	16.9	17.0	40.0	10.2	15.1	0.8
1998	100.0	15.4	17.4	38.1	10.4	16.6	2.1
1999	100.0	16.6	16.9	34.7	12.1	16.4	3.2
2000	100.0	17.2	17.1	31.9	12.8	16.5	4.4
2001	100.0	18.9	18.3	28.3	13.5	15.4	5.6
2002	100.0	20.5	16.2	28.2	13.3	15.4	6.5
2003	100.0	17.8	14.9	30.6	13.2	15.3	8.2
2004	100.0	11.1	18.1	32.3	12.9	15.4	10.3
2005	100.0	3.8	20.4	34.7	12.6	15.6	13.0

LONG RUN TREASURY FINANCING MODEL (1/27/00 update)

SCENARIO: BUDGET SURPLUS EQUAL TO NEW CBO ESTIMATES (OFF-BUDGET SURPLUS ONLY; "INFLATED" SCENARIO)
BUYBACK $25 BIL IN 2000, $50 BIL PER YR IN 2001-02 AND $100 BIL PER YR THEREAFTER (AVG MAT IS ABOUT 15 YRS)
ASSUMES NET NONMKTABLE ISSUANCE EQUALS ZERO
REDUCE 2'S TO 8 ISSUES PER YR BEG IN 2000 Q2
REDUCE 10'S AND 30'S TO AVG ISSUE SIZE OF $9 BIL

Marketable Issuance

FY	Total Net	Bills Net	Coupons Net	Coupons Mat	Coupons Gross: Total	2	3	5	7	10	30	TIPS
1993	227.4	25.6	201.9	308.2	510.1	188.6	67.0	140.4	30.3	45.0	38.8	0.0
1994	186.7	39.0	147.7	352.4	500.1	217.1	72.0	138.8	0.0	50.2	22.0	0.0
1995	186.8	29.2	157.6	348.6	506.2	219.4	72.4	140.7	0.0	51.2	22.5	0.0
1996	140.0	29.7	110.3	439.6	549.9	235.5	78.3	151.7	0.0	62.4	22.0	0.0
1997	21.0	-59.7	80.7	480.7	561.4	220.5	74.9	154.6	0.0	57.0	30.0	24.4
1998	-109.4	-65.8	-43.6	505.0	461.4	187.0	38.5	125.0	0.0	46.5	30.0	34.4
1999	-98.0	16.4	-114.4	489.0	374.6	200.0	0.0	65.0	0.0	46.0	30.0	33.6
2000	-166.0	21.2	-162.2	459.2	297.0	152.0	0.0	64.0	0.0	38.0	18.0	25.0
2001	-146.0	75.4	-171.4	437.4	266.0	122.0	0.0	64.0	0.0	38.0	18.0	24.0
2002	-163.0	28.6	-141.6	407.6	266.0	122.0	0.0	64.0	0.0	38.0	18.0	24.0
2003	-176.0	-40.4	-35.6	301.6	266.0	122.0	0.0	64.0	0.0	38.0	18.0	24.0
2004	-189.0	-110.1	21.1	244.9	266.0	122.0	0.0	64.0	0.0	38.0	18.0	24.0
2005	-205.0	-92.8	-12.2	278.2	266.0	122.0	0.0	64.0	0.0	38.0	18.0	24.0

Note: Net bill issuance is calculated as the residual, given the financing need and gross coupon issuance.

Outstandings

FY	Total	Bills	Coupons: <1	1-5	5-10	>10	TIPS	Average Maturity w/oTIPS	w/TIPS
1988	1555.2	289.5	234.7	553.0	232.5	245.6	0	5.8	
1989	1654.7	310.1	236.6	578.3	247.4	282.1	0	6.0	
1990	1841.9	371.1	255.2	630.1	267.6	317.9	0	6.1	
1991	2113.8	438.2	275.6	761.2	280.6	358.2	0	6.0	
1992	2363.8	500.5	308.2	866.3	295.2	392.8	0	5.9	
1993	2562.3	506.3	351.8	978.7	306.7	418.8	0	5.8	
1994	2719.9	527.5	350.4	1128.3	290.0	423.6	0	5.7	
1995	2870.8	565.4	437.5	1157.5	290.1	420.3	0	5.3	
1996	3011.2	577.6	481.0	1212.3	306.6	433.8	0	5.3	
1997	2998.8	508.2	509.7	1199.0	306.6	452.3	24.4	5.3	5.4
1998	2856.6	441.7	498.9	1089.2	296.3	475.6	58.8	5.7	5.8
1999	2728.0	454.0	461.1	946.0	331.1	448.5	87.3	5.8	6.0
2000	2562.0	475.2	437.4	782.7	329.0	423.5	112.3	5.8	6.2
2001	2416.0	550.6	407.6	622.4	300.3	396.9	136.3	5.7	6.2
2002	2253.0	579.2	301.6	568.2	272.9	369.0	144.2	5.7	6.3
2003	2077.0	538.8	244.9	568.5	222.8	315.8	168.2	5.5	6.3
2004	1888.0	428.7	278.2	542.5	165.6	262.8	192.2	5.2	6.2
2005	1683.0	335.9	278.2	516.0	109.5	209.1	216.2	4.9	6.2

Composition of Outstanding Debt (%)

FY	Total	Bills	Coupons: <1	1-5	5-10	>10	TIPS
1988	100.0	18.6	15.1	35.6	14.9	15.8	0.0
1989	100.0	18.7	14.3	35.0	15.0	17.1	0.0
1990	100.0	20.1	13.9	34.2	14.5	17.3	0.0
1991	100.0	20.7	13.0	36.0	13.3	16.9	0.0
1992	100.0	21.2	13.0	36.7	12.5	16.6	0.0
1993	100.0	19.8	13.7	38.2	12.0	16.3	0.0
1994	100.0	19.4	12.9	41.5	10.7	15.6	0.0
1995	100.0	19.7	15.2	40.3	10.1	14.6	0.0
1996	100.0	19.2	16.0	40.3	10.2	14.4	0.0
1997	100.0	16.9	17.0	40.0	10.2	15.1	0.8
1998	100.0	15.4	17.4	38.1	10.4	16.6	2.1
1999	100.0	16.6	16.9	34.7	12.1	16.4	3.2
2000	100.0	18.6	17.1	30.6	12.8	16.5	4.4
2001	100.0	22.8	16.9	25.8	12.4	16.4	5.6
2002	100.0	25.9	13.5	25.4	12.2	16.5	6.5
2003	100.0	26.2	11.9	27.6	10.8	15.3	8.2
2004	100.0	22.9	14.9	29.0	8.9	14.1	10.3
2005	100.0	20.2	16.7	31.0	6.6	12.6	13.0

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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STATEMENT OF
DEPARTMENT OF THE TREASURY
LESLIE B. SAMUELS
ASSISTANT SECRETARY (TAX POLICY)
BEFORE THE
COMMITTEE ON FOREIGN RELATIONS
UNITED STATES SENATE

Mr. Chairman and members of the Committee, I am pleased today to recommend, on behalf of the Administration, favorable action on seven bilateral tax treaties and protocols that the President has transmitted to the Senate and that are the subject of this hearing. My colleague, Mr. Joseph H. Guttentag, will discuss one of these agreements, the Protocol to the Income Tax Convention with Mexico. These agreements each would provide significant benefits to the United States, and the Treasury hopes that the Senate will 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 agreements with two of our largest trading partners -- Canada and France. Two are with smaller, but nevertheless significant partners -- Sweden and Portugal. There also are two treaties with countries that are likely to become significant trading partners in the future -- Kazakhstan and Ukraine. Each agreement will generate substantial benefits for U.S. taxpayers and tax authorities, and will serve to increase desirable international economic activity.

To help frame our discussions, I would like to describe in general terms the U.S. tax treaty program. The United States has a network of 47 bilateral income tax treaties, the first of which was negotiated in 1939. We have treaties with most of our significant trading partners. With the exceptions of Portugal and Turkey, we have treaties in force with all 24 of our fellow members of the Organization for Economic Cooperation and Development (OECD).

The Treasury Department receives regular and numerous requests to enter tax treaty negotiations. As a result it has been necessary for us to establish priorities. These priorities are not new: they are reflected in the treaties that the Senate approved in 1993 as well as the treaties that you are considering today.

In response to prior direction from the Senate as well as the Treasury's own policies, the Treasury's first priority for treaty

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negotiations is to renegotiate outdated treaties that lack effective anti-abuse clauses and that do not reflect recent changes in U.S. tax legislation. Examples in this category are the agreements with Canada, France and Sweden. Other treaties in this category that are currently being renegotiated include Austria, Luxembourg and Switzerland. We have made it clear to our treaty partners that we will not tolerate continuation of treaty relationships that fail to reflect important U.S. treaty policies.

A second priority is to conclude treaties that are likely to provide the greatest benefits to U.S. taxpayers. As discussed below, these benefits are important to the competitive posture of U.S. taxpayers that enter a treaty partner's marketplace. Such treaties could include treaties with expanding economies with which we lack a treaty, or revised treaties with existing treaty partners but that contain substantially improved provisions. Examples in this category include the treaty with Portugal, as well as the agreements with Canada and France.

A third priority is to conclude treaties with countries with which we lack a treaty, but that have the potential to be significant trading partners. The list of such countries has always been a long one, and it has become even longer since the late 1980's and the opening of the Iron Curtain. Therefore it has become necessary to consider additional factors in setting priorities among this category. One such factor is the international economic and foreign policy of the United States. Treasury tries to focus its efforts in this category on those countries with which strong political and economic relations are a high priority. The existence of a tax treaty can help remove impediments to trade and investment in such countries and thereby help establish economic ties that may contribute to the country's stability and independence. Consideration of this factor is not new. In 1993 the Senate considered and approved treaties with three countries that fit this description: the Russian Federation, the Czech Republic, and Slovakia. The treaties before you today contain two examples from this category: Ukraine and Kazakhstan.

Benefits Provided by Income Tax Treaties

Irrespective of the category in which a particular country may fall, we seek to achieve the same two basic objectives through the treaty. First, it reduces income tax-related barriers to international trade and investment. An active treaty program is a significant element in the overall international economic policy of the United States. A tax treaty has a substantial positive impact on the competitive position of U.S. businesses that enter a treaty partner's marketplace.

A second general objective of our tax treaty program is to combat tax avoidance and evasion. A treaty provides the tax administrations of both treaty partners with certain tools with which to combat tax evasion.

While the domestic tax legislation of the United States and many other countries in many ways is intended to further the same general objectives as our treaty program, a treaty network goes beyond what domestic legislation can achieve. Legislation is by its nature unilateral and cannot easily distinguish among countries. It cannot take into account other countries' rules for the taxation of particular classes of income, and how those rules interact with U.S. statutory rules. 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, domestic statutory law as it applies to income flowing between the treaty partners.

Benefits to Taxpayers

An income tax treaty removes impediments to international trade and investment in three ways. First, it reduces the withholding taxes on flows of investment income that the United States and most other countries impose. Second, it establishes rules that assign to one country or the other the primary right of taxation with respect to an item of income, helping to prevent "double taxation," which occurs when both countries impose tax on the same income. Third, the treaty provides a dispute resolution mechanism to prevent double taxation that sometimes can arise in spite of the treaty. These and other benefits provided by a tax treaty help to minimize the effects of tax considerations on investment location decisions, facilitating the cross-border flows of trade, services and technology. I would like to briefly discuss each of these aspects of an income tax treaty.

High withholding taxes are an impediment to international investment. Under United States domestic law, all payments to non-U.S. persons of dividends and royalties and certain payments of interest are subject to withholding tax equal to 30 percent of the gross amount paid. Since 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. Most of our trading partners impose similar levels of withholding tax on these types of income.

Tax treaties remove this burden by reducing the levels of withholding tax that the treaty partners may impose on these types of income. In general, U.S. policy is to reduce the rate of taxation on interest and royalties to zero. Dividends normally are subject to tax at one of two rates, depending on the amount of stock that the recipient owns in the company distributing the dividend. If the recipient is a corporation owning a significant percentage of shares in the distributing company -- usually 10 percent -- the rate of tax is usually limited to 5 percent. In all other cases the tax is generally limited to 15 percent.

The extent to which this policy is realized 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 flows. We also achieve lesser, but still very significant reductions with countries where the flows tend to be disproportionately in favor of the United States. In the latter case, the treaty partner may perceive that it is making a concession in favor of the United States without receiving a corresponding benefit. For this reason and others the withholding rates tend to vary somewhat from treaty to treaty. All treaties, however, achieve substantial reductions in withholding taxes.

Eliminating double taxation is another paramount objective of any income tax treaty. One of the principal ways this is achieved is through assignment of primary taxing jurisdiction in particular factual settings to one treaty partner or the other. In the absence of a treaty, a U.S. 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 unfeasible.

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 general terms, the treaty provides that if the branch operations have sufficient substance and continuity, the country where the activities occur will have primary jurisdiction to tax. In other cases, where the operations are relatively minor, the home country retains the primary jurisdiction to tax. These provisions are especially important in treaties with less-developed countries, which in the absence of a treaty frequently will tax a branch operation even if the level of activity conducted in the country is negligible. Under these favorable treaty rules, U.S. manufacturers may establish a significant foreign presence through which products are sold without subjecting themselves to foreign tax. Similarly, U.S. residents generally may live and work abroad for short periods without becoming subject to the other country's taxing jurisdiction.

These rules are general guidelines that do not address every conceivable situation. Consequently, 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.

In a world in which most major economic powers have extensive tax treaty networks, the absence of a U.S. tax treaty with a particular country can be a distinct disadvantage to U.S. businesses competing in that foreign market, and to the ability of the United States to attract foreign investments from that country. Securing a more level playing field for U.S. companies is particularly important given the substantial and increasing volume of cross-border investment by our major trading partners. In 1980 the level of U.S. direct investment abroad was about the same as that of the European Community and Japan together. However, by 1990, the level of direct investment abroad from the European Community and Japan had risen to about double that of the United States.

<u>Prevention of Tax Evasion</u>

All the aspects of tax treaties that I have been discussing involve benefits that the treaties provide to taxpayers, especially multinational companies, but also to individual citizens. 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 evasion and abuse of the treaties. Tax treaties achieve this objective in at least two major ways. First, they provide for exchange of information between the tax authorities. Second, they contain provisions designed to ensure that residents of the treaty partner generally may enjoy the benefits of the treaty only if they have a substantial nexus with their country of residence.

Under the tax treaties, the competent authorities are authorized to exchange information, including otherwise 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.

To highlight the importance of this aspect of the tax treaty program, the Department of Justice has written a letter expressing its support for these treaties, a copy of which is appended to this testimony for the Committee's information.

A second major objective is to obtain comprehensive provisions designed to prevent abuse of the treaty by persons who are not bona fide residents of the treaty partner. This practice, which is known as "treaty shopping," can take a number of forms, but its general characteristic is that a resident of a third state that has either no treaty with the United States or a relatively unfavorable one establishes 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 U.S. investments, which could run the gamut from portfolio stock investments to a major operating company, or otherwise engage in treaty-favored activity in the United States. By placing the investment in the treaty partner, the person is able to withdraw the returns from the U.S. investment subject only to the favorable rates provided in the tax treaty, rather than the higher rates that would be imposed if the person had invested directly in the United States.

In the past this Committee has expressed strong concerns about treaty shopping, and the Treasury Department shares those concerns. 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. With no treaty, the country maintains its barriers to U.S. investors. There may be good reasons why the United States has not concluded a treaty with a particular country. For instance, we generally do not conclude tax treaties with jurisdictions that do not impose significant taxes, because there is little danger of double taxation of income in such a case and it would be inappropriate to reduce U.S. taxation on inbound investment returns if the other country cannot offer a corresponding benefit in exchange for favorable U.S. treatment. If investors from such countries were able to enjoy the benefits of a treaty between the United States and another country, and at the same time enjoy the benefits of a tax haven regime in their home country, this policy would be undermined.

In recognition of these concerns, the Treasury Department 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's internal laws and practices.

Transfer Pricing

Several of the aspects of income tax treaties that I have been describing are highly relevant to an issue that has been a contentious one in recent years and that is of very serious concern to the Administration. That issue is transfer pricing.

Transfer pricing relates to the division of the taxable income of a multinational enterprise among the jurisdictions where it does business. 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 in that country will collect less tax from the enterprise than it should. Accordingly, transfer pricing is an important subject not only in this country but in most other industrialized countries as well.

In analyzing the prices charged in any transaction between affiliated parties, 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."

One of the principal advantages of this approach is its neutrality: it does not ask the multinational to report a result different from that which would have been achieved by unrelated parties. This neutrality means that multinational enterprises are treated neither more nor less favorably than unrelated parties.

Consistent with the domestic practice of all major trading nations, all of our comprehensive income tax treaties adopt the arm's length standard as the agreed benchmark to be used in addressing a transfer pricing case. Adoption of a common approach to these cases is another benefit provided by tax treaties. A common approach guarantees the possibility of achieving a consistent allocation of income between the treaty partners. Without such an assurance, it is possible that the two tax authorities would determine inconsistent allocations of income to their respective jurisdictions, resulting in either double or under taxation. Double taxation would occur when part of the multinational's income is claimed by both jurisdictions. Under taxation would occur when part of the multinational's income is claimed by neither jurisdiction.

By adopting a common standard, the risks of double and under taxation are minimized. Furthermore, when double taxation does occur, the competent authorities of the two countries are empowered to consult and agree on an equitable division of income based upon this common reference point. Without this common reference point, reaching mutual agreement would be difficult.

One of the principal criticisms of the arm's length standard is that it requires judgements to be made about the price unrelated parties would have agreed to under similar circumstances. Generally this sort of judgment requires one to refer to transactions between unrelated parties. In some cases this information can be difficult to obtain. This difficulty has been cited in support of replacing or supplementing the arm's length standard by an alternative approach similar to that employed by the states. Further, it has been suggested that these treaties should not be approved unless they permit a standardized formulary approach in addition to or in place of the arm's length standard.

Obviously, this hearing on seven income tax treaties and protocols is not the time or place to debate this issue. I will say, however, that the paramount consideration in selecting an approach for the analysis of transfer pricing issues is that there be broad international consensus in favor of its use and a commitment to administer the approach in a similar way. Without that consensus, widespread double and even under taxation will inevitably occur. Therefore, a unilateral move, or even an announcement that a country is considering a move to a different approach, can be expected to lead to more problems than it solves.

The United States and its trading partners have made a concerted effort in the last two years to address the shortcomings of the arm's length standard. We believe that these efforts will maintain the arm's length standard as a viable approach. However, if the United States and its partners decide one day that the arm's length standard should be abandoned in favor of some other approach, I can assure this Committee that our tax treaties will not stand in our way. In such a case, we will agree on a new approach and will develop guidelines for uniform application of that approach. The tax treaties would inevitably give way in the face of this new consensus.

Basis for Negotiations

Each of these treaties reflects current U.S. treaty policy, as developed jointly by the Treasury Department and the Congress in recent years. The provisions in each treaty borrow heavily from recent treaties approved by the Senate, particularly the treaties with the Czech Republic, Germany, Mexico, the Netherlands and Spain. Many aspects of these treaties in turn are derived from the 1992 OECD Model Income Tax Convention and its predecessor, the 1977 OECD Model. The United States is 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. This ability greatly facilitates the process, as most of our treaty partners also are relatively comfortable with the OECD Model.

These treaties are not based on a U.S. Model Income Tax Convention. The United States has published model treaties in the past, most recently in 1981. In 1992 that treaty was withdrawn because it did not reflect recent legislative and other policy changes in the United States and because certain of its provisions, most notably the limitation on benefits provision, were found deficient. Accordingly, in evaluating these treaties, it generally is not useful to make comparisons to the former U.S. model treaty, as the former model did not serve as the basis for concluding the seven agreements you have been asked to consider.

The fact that the 1981 Model was withdrawn three years ago does not mean that we believe that there is no useful role for a U.S. model. It is true that most countries use the OECD Model, or a model treaty developed by the United Nations, as the basis for their negotiations. However, at least two aspects of United States tax policy make it desirable for this country to have its own model treaty. First, our legislation is uniquely complex. Any treaty must accommodate the provisions of our internal law to an extent not found in other countries. Examples include the treatment of foreign-owned real property, the branch profits tax, the treatment of real estate mortgage conduits, and taxation of U.S. citizens on their worldwide income regardless of their residence. Second, our treaty policy demands certain additional provisions not directly reflected in internal legislation. Our insistence that every U.S. tax treaty contain a comprehensive limitation on benefits provision is one example. Only a United States model income tax convention can fully accommodate these prerequisites. Therefore, we have been developing a new U.S. model treaty in recent months, and we intend to complete that project and publish a new model treaty as soon as time and resources permit.

A model treaty is not a panacea, however. Even after the U.S. publishes a new model treaty, no treaty will ever be an exact duplicate of a model, nor should it be. While any two treaties will usually have a number of provisions that are virtually identical, certain aspects of each treaty must be tailored to the individual facts and circumstances of the two treaty partners. Numerous features of the treaty partner's legislation and its interaction with U.S. legislation must be considered in negotiating an appropriate treaty. Examples include the treatment of partnerships and other transparent entities, whether the country eliminates double taxation through an exemption or credit system, whether the country has bank secrecy legislation that needs to be modified by treaty, and whether and to what extent the country imposes withholding taxes on outbound flows of investment income. Consequently, a negotiated treaty needs to take into account all of these and 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 between a proposed treaty and a model treaty, will not enable one to draw meaningful conclusions as to whether a proposed treaty is appropriate and should be ratified. Finding the answer to that important question is a more complicated exercise, and one that the Treasury goes through before any treaty or protocol is signed.

Evaluation of Individual Treaties

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. Obtaining the agreement of our treaty partners on these critical issues sometimes requires concessions on our part. Similarly, other countries sometimes must make concessions to obtain our agreement on issues that are critical to them. The give and take that is inherent in the negotiating process leading to a treaty is not unlike the process that results in legislation in this body. Therefore, no two treaties are exactly the same, and no treaty is entirely ideal from the point of view of either treaty partner.

An example of the result of the negotiation process is provided by the treatment of income from container leasing. For many years the Treasury Department's policy has been that container leasing income should be treated as shipping income taxable only in the country of residence of the recipient. The basis for this position is that container leasing is more like shipping income than royalty income or equipment leasing income. Therefore we try to include this treatment in all treaties. It also will be included in the new model treaty.

We often succeed in obtaining the desired treatment. However, as part of the give and take of the negotiating process we are sometimes not able to obtain full shipping income treatment. In such cases, we strive to obtain incidental shipping income treatment and business profits treatment for container leasing income not incidental to a shipping business. Business profits treatment gives the same result as shipping income treatment when the lessor does not have a permanent establishment in the source state. Developing countries, however, often treat container leasing income as royalty income subject to withholding at source. We have consistently objected to this treatment and will continue to do so. In some cases we have agreed to royalty treatment, but with a zero rate of withholding, which gives the same result as business profits treatment. It is our continuing policy and intention to include full shipping income treatment for container leasing income, with business profits treatment as the fall-back alternative. The treaties with all seven of the countries we are dealing with today reflect our success in achieving this objective.

In evaluating the benefits provided to taxpayers and the tax authorities by any treaty, it would be a mistake to focus solely on the provisions that differ from other treaties. It is important to bear in mind that most of the provisions in any two treaties are very similar and in some cases identical. Perhaps because of their similarity, many of these provisions are routine and non-controversial, and they attract little attention. Their importance, however, should not be underestimated. These provisions are responsible for many of the benefits that a tax treaty provides to taxpayers and tax authorities. Therefore, when evaluating the overall benefits provided by an income tax treaty, it is important to consider not only the benefits of lowered withholding rates and other non-standard provisions, but also the benefits provided by these more standard provisions. Many of these rules provide taxpayers with more favorable treatment than otherwise would be available, as well as the benefits of certainty and transparency. Others improve the ability of the tax authorities to administer the tax laws.

For example, each proposed treaty establishes relatively uniform rules for taxing income other than investment income, including business profits, capital gains, and personal services. Social security benefits under each proposed treaty will be subject to tax in the country making the payment.

Each treaty reflects standard U.S. policy for the taxation of dividends paid by regulated investment companies (RICs) and real estate investment trusts (REITs). Special rules are provided to prevent the use of these entities to transform what should be relatively high-taxed income into income taxed at much lower rates. Each treaty allows the U.S. to impose the branch profits tax at the treaty's direct dividend rate. In addition, in conformity with what has become standard U.S. treaty policy, excess inclusions with respect to residual interests in real estate mortgage investment conduits are subject to the U.S. statutory withholding rate of 30 percent.

The proposed treaties also contain provisions designed to improve tax administration, including rules concerning exchange of information, mutual assistance, and nondiscrimination. They contain rules necessary for the administration of the treaty, including rules for the resolution of disputes and the exchange of information. 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 U.S. tax laws and treaties.

Each treaty also contains a comprehensive limitation on benefits provision designed to ensure that residents of each State may enjoy treaty benefits only if they have a substantial nexus with that State, or otherwise can establish a substantial non-treaty shopping motive for establishing themselves in their State of residence.

Finally, the treaties with France, Portugal and Sweden, and the protocol with Canada contain provisions not found in previous tax treaties in any country. These provisions reflect the Treasury Department's policy that tax discrimination disputes between two nations generally should be resolved within the ambit of the tax treaty, and not under any other dispute resolution mechanisms, including the World Trade Organization (WTO). The General Agreement on Trade in Services (GATS) already affords some protection, as it provides that national treatment disputes involving taxation measures will be resolved under tax treaties where the measure at issue falls within the scope of a tax treaty. With respect to treaties existing when the WTO entered into force (January 1, 1995), the GATS also provides that the parties to a tax treaty are not permitted to bring the issue of whether a measure is within the scope of a tax treaty to the Council for Trade in Services unless both parties to the tax treaty agree. For this rule to apply to tax treaties that enter into force after January 1, 1995, a specific provision must be included in the treaty. The provision we have included in these tax treaties sets forth this rule, providing that if there is a dispute as to whether a taxation measure falls under the tax treaty, such dispute will be resolved solely under the tax treaty in accordance with the dispute resolution mechanisms provided in the tax treaty. Further, no national treatment or most-favored nation obligation provided under another agreement will apply to a taxation measure (with the exception of the General Agreement on Tariffs and Trade as it applies to trade in goods). I hope that the Senate shares the Treasury's firm conviction that taxation disputes should be handled exclusively within the tax treaty and not in the World Trade Organization or elsewhere.

I would like to add that two of the treaties before you -- the treaties with Kazakhstan and Ukraine -- do not contain this provision. Although neither of these countries has acceded to the GATS, we believe that it would be appropriate to have similar provisions in the treaties so that a protocol or renegotiation would not be required later. The State Department therefore undertook to exchange diplomatic notes with the governments of these countries. We have completed an exchange of notes with Ukraine. These notes reflect the mutual understanding of the two governments that the treaty will be subject to the same restriction as the other agreements you are considering. We are continuing to work with the government of Kazakhstan and believe that similar notes will be exchanged shortly.

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, the Canadian Protocol contains provisions that deal with taxes at death, and the Portuguese treaty contains a special provision in the limitation on benefits article to deal with Portugal's offshore sector. Further, treaties with countries that are not as economically advanced as some of our other treaty partners frequently contain different withholding and other provisions that reflect their transitional economic status. All of these features should be regarded as a strength rather than weakness of the tax treaty program, since it is these differences that enable each treaty to deal with the differing circumstances of the two treaty partners in a balanced way.

I now would like to discuss the most important aspects 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, reflecting the policies behind each provision, as well as understandings reached between the negotiators regarding the application and interpretation of various provisions.

<u>Canadian Protocol</u>

The Protocol to the Canadian treaty would significantly change our taxation relationship with Canada. Since Canada is one of our most important economic partners, these proposed amendments have attracted considerable positive attention in the business communities of the United States and Canada. The amendments are also strongly supported by the tax administrations in both countries.

The negotiation of this Protocol initially was motivated by Canada's desire to alleviate the impact of 1988 U.S. estate tax legislation on estates of Canadian decedents with U.S. property. It quickly became clear that other changes should be made to accomplish several important objectives. The Protocol accordingly amends a number of provisions of the Convention to reflect better current tax law and treaty policy in both countries, to resolve certain technical problems that had been identified in the present Convention, and to achieve greater consistency with the principles underlying the North American Free Trade Agreement.

The Protocol was signed on March 17, 1995. It amends the existing Convention with Canada, which was signed in 1980 and amended by Protocols in 1983 and 1984. A very similar Protocol was signed in August, 1994 and submitted to the Senate. We subsequently realized that a few minor technical changes were appropriate. Most of these technical changes relate to the rules on death taxation. This Protocol incorporates these changes, and replaces the 1994 Protocol, which has been formally withdrawn from Senate consideration.

The Protocol reduces the rates of withholding at source on dividend, interest and royalty income in a manner that will have a significant positive impact on cross-border flows of capital and technology between the United States and Canada.

The direct investment dividend rate will be reduced over a three year phase-in period from 10 to 5 percent, which is the lowest rate in any current U.S. or Canadian treaty. This reduction will affect very large amounts of dividends flowing from subsidiaries in one country to parent corporations in the other, and will make cross-border investment more attractive.

The Protocol also reduces the rate of withholding on cross-border flows of interest from 15 to 10 percent. Although higher than the preferred U.S. position of exemption at source, this reduction will provide a substantial benefit to many U.S. recipients of Canadian-source interest payments. It will have a lesser effect on U.S. outflows of interest to Canada, because much of this flow is already exempt from U.S. tax under the portfolio interest provisions of the Code.

The Protocol also significantly reduces withholding taxes on royalties. While Canada has been willing to exempt royalties for copyrights of most literary and artistic works, it previously had opposed lowering the rate below 10 percent for software or other royalties. However, in an effort to encourage transfers of technology between the United States and Canada, Canada agreed in this Protocol to confirm that software royalties are exempt at source and to broaden significantly the categories of royalties subject to exemption at source to include royalties paid in respect of patents, as well as royalties paid in respect of information concerning industrial, commercial, or scientific experience ("know-how"). Canada has agreed to a similar provision with only one other country; that other provision applies only to transactions between unrelated persons and is, therefore, significantly more limited than the provision in the Protocol.

The United States held strongly to the view throughout the negotiations that the nature of U.S.-Canadian economic relations demands the lowest possible withholding rates. We negotiated this Protocol from the same policy perspective that led to the NAFTA; a desire for open economic borders. Although Canada was not prepared to reduce withholding rates as much as the United States would have liked, we agreed to discuss further reductions in withholding rates within three years of the entry into force of this Protocol. Canada's agreement to the substantial reductions provided by the Protocol, coupled with the commitment to hold further discussions in the near future, represents a significant positive step.

The Protocol does not change the existing Convention's treatment of income from container leasing as taxable only in the state of residence of the recipient.

As I indicated, two aspects of our tax treaty program that have a center-stage position are cooperation in tax compliance and the prevention of abuse of the treaty. This Protocol contains four sets of provisions that significantly advance these objectives.

First, the Protocol adds a comprehensive limitation on benefits article. The present treaty has no general anti-treaty-shopping rules. The limitation on benefits rules are unilateral, at Canada's request. Thus, they apply only to limit benefits that the U.S. otherwise must grant with respect to U.S. source income of Canadian residents. The inclusion of specific treaty shopping rules does not limit either State's right to invoke applicable anti-abuse principles to deny benefits where necessary to prevent abuse of the treaty. Although both the United States and Canada believe that such principles are inherently applicable under all their treaties, we agreed to include an explicit statement to that effect to preclude any argument that the unilateral nature of the anti-treaty-shopping provisions might prevent Canada from applying such principles. The statement is drafted reciprocally to clarify that the United States may apply such principles as well.

Second, the Protocol will broaden the information exchange provisions to include all national taxes. With respect to Canadian taxes, the present treaty covers only taxes imposed under the Income Tax Act, and any national taxes on estates and gifts.

Third, the Protocol adds detailed rules under which each State will, within appropriate limits, assist the other in the collection of its taxes. We have collection assistance provisions in several other income tax treaties, including our recent treaty with the Netherlands (and both the current and pending treaties with France and Sweden), and in many of our estate tax treaties. Because of the close working relationship between U.S. and Canadian tax authorities and the similarity of U.S. and Canadian law, we believe that Canada is an appropriate partner for collection assistance.

The collection assistance provisions fully protect taxpayer rights. For example, collection assistance may be requested only for finally determined claims. If at any point in the process the claim loses that status, the request must be withdrawn promptly. In addition, no assistance is to be provided in respect of an individual who was a citizen of, or an entity that was a resident of, the requested State at the time to which the claim relates.

Fourth, the Protocol will strengthen the dispute resolution mechanisms by amending an aspect of the present Convention that created potential for abuse. Unlike most treaties, the present Convention provides that the State making a transfer pricing adjustment must withdraw it, to the extent necessary to avoid double taxation, if the adjustment has not been reported to the other State within six years of the end of the taxable year to which it relates. This requirement could permit a taxpayer to force withdrawal of the initial adjustment by delaying cooperation with the tax authorities. To eliminate this potential for abuse, the Protocol removes the obligation of a State to withdraw its adjustment in such circumstances.

The Protocol also provides that the States may, by mutual agreement, implement an arbitration procedure for the resolution of disputes under the Convention. However, consistent with this Committee's 1990 report on the U.S.-Germany income tax treaty, and with the similar provisions of the income tax treaties with the Netherlands and Mexico approved by this Committee in 1993, the arbitration procedure provided for in this Protocol will not take effect automatically. As in the case of the Netherlands and Mexico treaties, the arbitration procedure can be put into effect only through an exchange of notes between the U.S. and Canadian Governments, after we have had experience that such a provision can operate effectively and efficiently. The Protocol provides that the appropriate authorities of the United States and Canada will consult, after three years, on whether and when it would be appropriate to bring the provision into effect.

Another important aspect of this Protocol is that it addresses taxes imposed by reason of death. Canada has replaced its estate tax regime with an income tax on gains accrued and deemed realized by the decedent at death. Since the U.S. tax at death is an estate tax, the two systems could not, absent special treaty rules, be coordinated in a way that would allow relief from double taxation. In the absence of treaty relief, the combined U.S. and Canadian taxes at death can exceed 75 percent. The death tax provisions of the Protocol are an important example of how treaties can be used to surmount technical differences between the tax laws of the two countries and provide appropriate relief from double taxation to ordinary citizens as well as multinational corporations. Prior to and during the negotiation of these provisions, we took advantage of the opportunity to discuss the policy and technical issues involved with the staffs of this Committee, the tax-writing committees, and the Joint Committee on Taxation. The value of these discussions is manifested in the successful results of our negotiations, which reflect such discussions.

Finally, the Protocol will broaden the scope of the non-discrimination article to include all national-level taxes in both States. Under the present treaty, Canadian coverage is limited to taxes imposed under the Income Tax Act. Thus, for example, the Canadian Goods and Services Tax would be added to the taxes in respect of which Canada would be obligated to provide non-discrimination protection.

The Protocol will enter into force upon the exchange of instruments of ratification. For withholding taxes on dividends, interest and royalties, it will have effect for amounts paid or credited on or after the first day of the second month of the year following its entry into force. For other taxes, the Protocol will have effect on the first day of the year following its entry into force. The reduction to 5 percent in the withholding rate on direct investment dividends will be phased in over a three year period. The rate will be reduced to 7 percent in 1995, 6 percent in 1996, and 5 percent beginning in 1997. The branch tax rate will be reduced to 6 percent in 1996 and 5 percent thereafter.

French Treaty

The proposed treaty with France would replace the existing treaty signed in 1967 and amended by protocols signed in 1970, 1978, 1984, and 1988. The treaty follows the existing one in most respects but is updated to reflect current tax laws and tax treaty policies of the two countries. It clarifies some important issues affecting United States investors and business operations in France, and it introduces a modern limitation on benefits provision.

The treaty would maintain the existing treaty's rates of tax on direct and portfolio dividends, which are 5 and 15 percent, respectively. For certain portfolio dividends paid by a French company to a U.S. shareholder, France will allow a tax credit for all or a portion of the French corporate tax paid on distributed profits, which effectively eliminates the French dividend withholding tax. This is a significant benefit to U.S. investors, including pension funds and other tax-exempt organizations that invest in France.

The treaty maintains the existing treaty's exemption at source for interest.

Under the treaty, income from container leasing is treated as shipping income if the income is incidental to income from the operation of ships and aircraft in international traffic. Other income from container leasing is treated as business profits. Consequently, such income is taxable at source only to the extent that it is attributable to a permanent establishment located in the source country.

The treaty also maintains the existing treaty's exemption at source for copyright royalties and a tax of not more than 5 percent on other royalties. The proposed treaty clarifies the scope of the tax exemption for copyright royalties, which includes royalties paid to producers and performers (as well as creators), and royalties for software programs. This provision makes the rules clear not only for future years, but also for copyright royalties paid from 1991 to the present, representing a further significant benefit to U.S. investors.

Like all recent U.S. treaties, the French treaty incorporates a comprehensive limitation on benefits provision. The provision is broadly similar to the corresponding provision in the Netherlands treaty that was ratified in 1993, although the French version is substantially less detailed.

Like the Canadian Protocol, the Protocol to the proposed treaty also provides that the States may, by future exchange of notes, implement an arbitration procedure for dispute resolution.

Finally, the proposed treaty covers the U.S. excise tax imposed on insurance premiums paid to foreign insurers. In accordance with the prior direction of this Committee, this provision was included in the proposed treaty only after prior consultation with the appropriate Committees of Congress, and only after the Treasury Department was satisfied that the French taxation of French insurance companies results in a burden that is substantial in relation to the U.S. taxation of U.S. insurance companies.

The treaty will enter into force when both governments have completed their respective constitutional and statutory procedures and have exchanged instruments of ratification. The provisions with respect to withholding taxes on dividends, interest and royalties and the U.S. excise tax on French insurers and reinsurers generally will take effect for amounts paid or credited on or after the first day of the second month following entry into force of the treaty. The provisions relating to the French dividend tax credit will apply to dividends paid on or after January 1, 1991. The provisions for royalties will also apply for royalties paid on or after January 1, 1991. The other provisions of the treaty will take effect for taxable periods beginning, or taxable events occurring, on or after January 1 of the year following the entry into force.

Portuguese Treaty

The proposed treaty between the United States and Portugal is the first tax treaty between our countries. The treaty is based on the OECD model income tax treaty and is similar in many respects to the U.S. income tax treaty with Spain. It closes an important gap in the United States tax treaty network and is expected to provide a strong boost to our economic relations with Portugal. The treaty represents something of a hybrid between a treaty with a developing country and a treaty with a highly developed country, which is consistent with the fact that Portugal, while a member of the European Union, is relatively less developed by the standards of that organization. For example, Portugal's 1993 per capita gross domestic product of $8,700 is less than half of France's $18,200.

With respect to investment income, the treaty would lower withholding taxes on cross-border payments of dividends, interest, and royalties. The tax on dividends is gradually lowered from statutory rates to roughly follow Portugal's gradual adoption of European Union norms with respect to withholding taxes on dividends. Initially the tax on both portfolio and direct dividends would be limited to 15 percent. In 1997 the rate on direct dividends would be lowered to 10 percent, and the rate will decline to 5 percent when Portugal fully adopts the European Union directive with respect to such dividends.

An unusual feature of this treaty is that it allows Portugal to continue to impose its 5 percent "substitute inheritance tax" on most dividends. Portugal imposes this tax on its own residents as well as on nonresidents, has never agreed to waive it in any treaty, and would not change its policy in this case. It views the tax as being more in the nature of an estate tax than an income tax and, therefore, not properly the subject of an income tax treaty. Portugal did, however, agree for the first time effectively to cap the tax at the current rate. This concession, together with Portugal's agreement to reduce the withholding tax on direct dividends to 5 percent, will put U.S. companies in a favorable position to compete in the Portuguese market.

The rate of tax on interest and royalties is generally reduced to 10 percent. Interest paid by or to the Government of one of the States or to a wholly-owned government institution is exempt from tax, as is interest paid on a long-term loan (5 years or more) made by a bank. These rates are significantly lower than the rates Portugal now applies to U.S. investors.

Income from container leasing is treated as royalty income, although a zero rate of withholding tax is provided in a protocol to the treaty, which effectively means that such income is subject to the same treatment as business profits. However, treatment of income from container leasing as royalty income is unusual, and the Treasury Department does not view it as a precedent for U.S. policy in future treaty negotiations.

As in all other recent U.S. income tax treaties, treaty benefits will be available only to residents of the two countries who satisfy certain requirements. The Portuguese treaty also contains a provision specifically directed at Portugal's offshore sector. Under this provision a person who would otherwise satisfy the requirements of the limitation on benefits provision will not be allowed treaty benefits if it is entitled to tax benefits that apply to tax-free zones in Madeira and the Azores.

The proposed treaty will enter into force on the date the instruments of ratification are exchanged, and its provisions will generally have effect on the following January 1.

<u>Swedish Treaty</u>

The proposed treaty with Sweden replaces the present income tax treaty between the two countries. The present treaty is the oldest tax treaty in force for both countries; it was signed in 1939, and was amended by a protocol signed in 1963. Considering the fact that it is more than half a century old, the present treaty deals remarkably well with the basic issues of the taxation of cross-border flows of income and cooperation between the tax authorities of the two countries. It does not, however, deal with certain taxes, such as the branch profits tax, that were not in effect at the time the present treaty was negotiated, or with certain issues, such as treaty shopping, that were not of concern at that time.

The proposed treaty limits withholding tax rates at source on payments of dividends, interest and royalties. The treaty provides that the tax in the source country on dividends paid to a resident of the other country may not exceed 15 percent in the case of portfolio dividends and 5 percent in the case of direct investment dividends. The treaty provides for exemption at source for interest and royalties. These are the same rates that are provided for in the present treaty.

The proposed treaty treats income from container leasing as shipping income taxable only in the state of residence of the recipient.

The proposed treaty limits the applicability of the Swedish capital tax with respect to certain U.S. citizens and residents who are not Swedish residents, or who are only temporarily resident in Sweden. The treaty also exempts the Swedish Nobel Foundation from U.S. tax on its U.S.-source investment income. The proposed treaty also retains the provision on assistance in collection contained in our present treaty with Sweden.

Like the proposed treaty with France, the proposed treaty covers the U.S. excise tax imposed on insurance premiums paid to foreign insurers. As in the case of the French provision, this provision was included in the proposed treaty only after prior consultation with the appropriate Committees of Congress, and only after the Treasury Department was satisfied that the Swedish taxation of Swedish insurance companies results in a burden that is substantial in relation to the U.S. taxation of U.S. insurance companies.

The proposed Convention is subject to ratification and enters into force on the exchange of instruments of ratification. With respect to the United States taxes payable at source, it will have effect for amounts paid or credited on or after the first day of January following entry into force, and in the case of other U.S. taxes, for taxable year beginning on or after that date. The treaty will have effect with respect to Swedish income taxes for any income derived on or after the first day of January following entry into force, and with respect to Swedish capital taxes for any taxes that are assessed in or after the second calendar year following entry into force (i.e., 1997 if the treaty enters into force in 1995).

Kazakhstan Treaty

The proposed treaty with Kazakhstan would replace, with respect to Kazakhstan, the treaty entered into between the United States and the former Union of Soviet Socialist Republics in 1973. The proposed treaty is based on the OECD model income tax treaty and on the current tax laws and income tax treaty policies of the two countries. It is an important step in furthering the U.S. policy of supporting the expansion of free enterprise in the newly independent states.

The proposed treaty would limit withholding tax at source on dividends, interest and royalties. The rate on portfolio dividends would be 15 percent and the rate on direct investment dividends would be 5 percent. The direct investment rate of 5 percent would also apply for purposes of imposing the branch profits tax on the dividend equivalent amount. The rate of tax on interest would generally be 10 percent. The tax would be reduced to zero, however, if the interest were paid by or to the government of the United States or Kazakhstan, or if the interest were paid on a loan of more than three years made, guaranteed or insured by an export credit agency (including the Export Import Bank or the Overseas Private Investment Corporation). The rate on royalties would generally be 10 percent.

Under the treaty, income from container leasing is treated as shipping income taxable only in the state of residence of the recipient.

The treaty confirms that wage and interest expenses are deductible for purposes of determining the Kazakhstan income tax liability of U.S.-owned enterprises, helping to ensure that the Kazakhstan income tax will be creditable for U.S. tax purposes.

Like the Canadian Protocol and the French treaty, the Protocol to the proposed treaty also provides that the States may, by future exchange of notes, implement an arbitration procedure for dispute resolution.

The treaty will generally take effect on January 1 of the year in which the two countries exchange instruments of ratification. With respect to taxes withheld at source (on dividends, interest, and royalties), the treaty will apply to amounts paid or credited on or after the first day of the second month following the exchange of instruments.

Ukrainian Treaty

The proposed treaty with Ukraine replaces, with respect to Ukraine, the 1973 income tax treaty between the United States and the former Union of Soviet Socialist Republics. The proposed treaty is based on the OECD model income tax treaty and the current

U. S. Department of Justice

Office of Legislative Affairs

Office of the Assistant Attorney General

Washington, D.C. 20530

January 20, 1995

Honorable Jesse Helms
Chairman
Committee on Foreign Relations
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

Seven income tax treaties (or protocols) are pending before the Foreign Relations Committee, including treaties or protocols with Canada, France, Kazakhstan, Mexico, Portugal, Sweden and the Ukraine. The Department of Justice would like to take this opportunity to urge that the Committee and the Senate approve these agreements at the earliest date practicable.

The civil and criminal enforcement actions of the Tax Division of the Justice Department are increasingly dependent on our ability to obtain foreign evidence (usually in the form of bank records) or foreign assets. Therefore, it is especially helpful to us that the treaties forwarded by the President have exchange of information provisions that will improve the ability of federal investigators and litigators to obtain evidence including bank records and witness testimony, for civil and criminal tax matters. These provisions will also improve the ability of federal authorities to obtain evidence in a form admissible for U.S. court proceedings.

Further, three of these pacts (the proposed protocol with Canada and the proposed updated treaties with France and Sweden) contain a particularly useful provision for mutual collection assistance (MCA) already found in several existing tax conventions including the recently ratified Netherlands Convention.

Under the Canadian provision, for example, federal tax authorities would be permitted to reach assets in Canada under the same circumstances in which collection can be undertaken for assets located in the United States following proper assessment procedures. This provision contains features aimed at bringing international tax collection assistance up to the efficiency levels of domestic tax collections, while, at the same time, preserving all the rights due taxpayers and property owners under the domestic laws of the respective countries. This provision does not obligate the United States to collect Canadian taxes owed by U.S. citizens or corporations.

The Department believes that all seven pacts will greatly enhance the tax enforcement capabilities of the United States government and lead to a significant increase in the collection of unpaid taxes properly due the public treasury.

The Office of Management and Budget has advised that there is no objection to the submission of this report from the standpoint of the Administration's program.

Sincerely,

Sheila Anthony

Sheila F. Anthony
Assistant Attorney General

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR RELEASE WHEN AUTHORIZED AT PRESS CONFERENCE
February 2, 2000

CONTACT: Office of Financing
202/691-3550

TREASURY FEBRUARY QUARTERLY FINANCING

The Treasury will auction $12,000 million of 4-3/4-year 5-7/8% notes, $10,000 million of 10-year notes, and $10,000 million of 30-1/4-year bonds to refund $27,624 million of publicly held securities maturing February 15, 2000, and to raise about $4,376 million of new cash.

In addition to the public holdings, Federal Reserve Banks hold $3,470 million of the maturing securities for their own accounts, which may be refunded by issuing additional amounts of the new securities.

The maturing securities held by the public include $3,594 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 $159 million into the 4-3/4-year note, $11 million into the 10-year note, and $1 million into the 30-1/4-year bond.

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

All of the securities 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 notes and bond are given in the attached offering highlights.

oOo

LS-367

Attachment

HIGHLIGHTS OF TREASURY OFFERINGS TO THE PUBLIC
FEBRUARY 2000 QUARTERLY FINANCING

February 2, 2000

Offering Amount	$12,000 million	$10,000 million	$10,000 million
Description of Offering:			
Term and type of security	4-3/4-year notes (reopening)	10-year notes	30-1/4-year bonds
Series	H-2004	B-2010	Bonds of May 2030
CUSIP number	912827 5S 7	912827 5Z 1	912810 FM 5
Auction date	February 8, 2000	February 9, 2000	February 10, 2000
Issue date	February 15, 2000	February 15, 2000	February 15, 2000
Dated date	November 15, 1999	February 15, 2000	November 15, 1999
Maturity date	November 15, 2004	February 15, 2010	May 15, 2030
Interest rate	5-7/8%	Determined based on the highest accepted competitive bid	Determined based on the highest accepted competitive bid
Yield	Determined at auction	Determined at auction	Determined at auction
Interest payment dates	May 15 and November 15	August 15 and February 15	May 15 and November 15 (first payment on May 15, 2000)
Minimum bid amount and multiples	$1,000	$1,000	$1,000
Accrued interest payable by investor	$14.84890 per $1,000 (from November 15, 1999, to February 15, 2000)	None	Determined at auction (from November 15, 1999, to February 15, 2000)
Premium or discount	Determined at auction	Determined at auction	Determined at auction
STRIPS Information:			
Minimum amount required	$1,600,000	Determined at auction	Determined at auction
Corpus CUSIP number	912820 EE 3	912820 EM 5	912803 CH 4
Due date(s) and CUSIP number(s) for additional TINT(s)	Not applicable	Not applicable	May 15, 2029--912833 XS 4 November 15, 2029--912833 XT 2 May 15, 2030--912833 XU 9

The following rules apply to all securities mentioned above:

Submission of Bids:

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

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

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

Maximum Award .... 35% of public offering

Receipt of Tenders:

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

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

Payment Terms .... 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
JUNE 13, 1995

DEPUTY SECRETARY NEWMAN ANNOUNCES HE IS LEAVING TREASURY

Treasury Secretary Robert E. Rubin announced today that Deputy Secretary Frank Newman plans to leave the Treasury Department to return to the private sector.

In a letter today to President Clinton, Newman said his decision to leave was a difficult one, and he praised the President and Rubin for their leadership. Newman, in the letter, said he would be happy to stay for an appropriate amount of time to help with transition.

Secretary Rubin praised Newman for his service to Treasury and the country as both Deputy Secretary and in his previous capacity of Under Secretary for Domestic Finance.

"Frank has been an outstanding Deputy Secretary and Under Secretary," Rubin said. "His successes are many, including playing a pivotal role in both the passage of legislation for interstate banking and legislation for community development and the reduction of regulatory burden, as well as his leadership on the financial management functions of Treasury. His efforts as part of the President's Management Council have made the department work better and more efficiently. I and the rest of the department will miss him."

Newman was sworn in as Deputy Secretary on Sept. 29, 1994, after serving as Under Secretary since May 12, 1993.

"I have worked to contribute to the specific substantive accomplishments of your administration, as well as to the process of governing and managing the very broad range of activities of the Treasury Department," Newman wrote in his letter. "I will leave with a sense of pride in having been part of your administration's significant achievements for the good of the economy and the financial system."

He added, "While in many ways I am reluctant to leave the Treasury, I know that as an individual citizen, I will have great confidence in the exceptional abilities and judgment of Secretary Rubin, his policy and management team, and the professional Treasury staff."

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He represented Treasury on the President's Working Group on Financial Markets, which includes the chairs of the Federal Reserve Board, the Securities and Exchange Commission and the Commodities Futures Trading Commission. He was chairman of the Advanced Counterfeit Deterrence Steering Committee, and was a member of the President's Management Council, which is comprised of the Chief Operating Officer of each department and major executive branch agency.

Newman came to Treasury after six years with BankAmerica Corporation, where he was chief financial officer and vice chairman of the board of directors. Prior to joining BankAmerica in 1986, Newman spent 13 years with Wells Fargo Bank in San Francisco. He moved through the ranks at Wells Fargo to be named executive vice president and chief financial officer in 1980.

Prior to joining Wells Fargo in 1973, he was a vice president at Citicorp from 1969 to 1973 and a manager of the consulting firm of Peat Marwick, Livingston & Co. in Boston from 1966 to 1969.

FOR IMMEDIATE RELEASE
February 2, 2000

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, and this month reached a record 107 months of expansion. Solid investment, strong productivity gains, and the creation of good jobs have contributed to improved living standards for all Americans. We are committed to sustaining this economic success into the future.

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EMBARGOED UNTIL 10:30 AM EST
Text as Prepared for Delivery
February 3, 2000

DEPUTY TREASURY SECRETARY STUART E. EIZENSTAT REMARKS TO BOARD OF DIRECTORS OF THE UNITED SOUTH AND EASTERN TRIBES WASHINGTON, DC

It is a privilege for me to meet with leaders of the Indian nations of the South and East today to discuss how Treasury can assist in the work you are doing to promote greater prosperity and economic opportunity for the people of your Tribes. I am well aware of the services USET provides to each of you in discharging your responsibilities of tribal leadership, by representing you before government bodies and in speaking out publicly and proudly about the contributions your Tribes make to the United States. On behalf of Secretary Summers, I especially want to thank you for the assistance you are giving to Treasury's Community Development Financial Institutions Fund in preparing the Native American Lending Study requested by the Congress, to our Office of Thrift Supervision in helping organize the Native American Conference to be held in Connecticut in July, and to the IRS in modernizing its programs of tax administration and taxpayer education in Indian communities.

I see by your program that I am the last of thirty speakers you have heard over the past four days. I will not try to summarize all that has been said before. I would only say that there is a strong commitment throughout our government to work with you on issues of your concern. And, as you have seen, there are a large number of dedicated and talented people engaged with these issues at a policy level, who respect your institutions and believe that working with you for the benefit of your people is the work they want to do in public life.

In his State of the Union speech last week, President Clinton described the extraordinary progress the American economy has made in recent years. He said that to keep our expansion going into the 21st century, we would need to open new markets, start new businesses and hire new workers in places that have not shared that prosperity. At the top of his list in that regard were Indian reservations. He described an expanded program to "honor", as he put it, "our historic responsibility to empower the first Americans."

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In this Administration we take that responsibility seriously. The Administration's Fiscal Year 2000 Budget increases funding for programs assisting Native Americans and Indian reservations by $1.2 billion. You have been briefed over the last three days on a series of programs in the fields of health, housing, education and economic development. All have common elements of respect for your sovereignty, a desire for your input, and a belief that real progress can be made on what for so long have seemed intractable problems.

Until quite recently, Treasury played little role in the economic affairs of Indian country. A few years ago, however, our then Comptroller of the Currency, Eugene Ludwig, began to address the inadequacy of banking services on reservations, which had very few branch banks and almost no ATM machines. The Comptroller's Office sponsored a banking and economic development conference in 1998 and, in conjunction with the Office of Thrift Supervision, the Federal Reserve and the FDIC has been engaged in a series of actions to educate banks and thrifts to the needs of reservations and bring tribes into partnership with nearby financial institutions to stimulate more lending and investment. Those activities began a process where, for the first time in its history, the Treasury reached out to find new and imaginative ways to make its resources available to Native American community. Our Department has learned much from these experiences. In this regard, we are indebted to many patient and understanding tribal leaders, several of whom are in this room. We are, I believe, beginning to make some concrete contributions to Native American communities.

OTS has co-sponsored conferences on Indian housing and economic development issues in each of the past two years. This year's conference, in Connecticut in July, will be tailored to the needs of the Eastern and Southern tribes. Representatives of federal agencies and Indian leaders will participate in practical workshops covering such subjects as private financing, government loans and operating a business.

Since 1996, $7.7 million in awards have been given to ten Community Development Financial Institutions that are serving Native American communities throughout the country. These awards are used to assist new small business start-ups, consumer loans, home mortgages, and technical assistance. During this past year, the CDFI Fund has been conducting a comprehensive study on barriers to capital access and credit for Native American communities. In the course of this study, on which you were briefed yesterday, the Fund has held 13 regional workshops with Tribal leaders, economists, public officials and representatives of private sector financial institutions. They identified existing barriers and their impact on Native American access to capital and credit, described their impact, and developed strategies and actions for improvement. The final study report should come out this fall. I am sure it will recommend practical and beneficial ways to increase capital access and investment to your communities and help establish more self-sustaining reservation economies.

Another part of Treasury, the Internal Revenue Service, has established a new office devoted exclusively to working with Indian tribes on a government-to-government basis. This office, whose new director Christie Jacobs was introduced to you on Tuesday, will offer "one stop" service to tribes and their members to help them in understanding and complying with the tax laws.

Our Office of Community Development Policy, in cooperation with HUD's Office of Native American Programs, is participating in the One-Stop Mortgage initiative, to identify and eliminate public and private sector barriers to homeownership in Indian Country and encourage grass-roots intermediaries to help prepare households for home ownership. In addition, we are working with the Business Roundtable to extend its BusinessLINC initiative, which tries to foster successful business relationships between tribes, their members and outside investors and firms

Through all of Treasury's activities in Indian country runs the common belief that the promise of sovereignty and the substantial reduction of poverty and dependency rests on the ability of Indian communities to plan and implement their own economic future. Some tribes have made impressive strides in economic development. Others are just beginning to deal with the opportunities and the struggles of fuller participation in the nation's economy.

We stand ready to work with you on a government-to-government basis to facilitate this objective. We can help build bridges of understanding and cooperation between tribal communities and outside investors and financial institutions. We can help develop the array of public and private institutions necessary for expanding access to capital and financing business on. We can provide technical assistance to tribal enterprises, businesses and community development financial institutions.

We need your continued advice and assistance as we try to enrich Treasury's activities in Native American communities over the next several years. So I hope that you will welcome the Department of the Treasury onto your communities as a friend, and make full use of the resources and people we have available to help you. I hope you will continue to give us the benefit of your views and your experience, so that we can be more effective in the exciting new ventures we have undertaken.

We look forward to a very constructive relationship with USET members, and with the other tribes across the country, so that you can play an active part in the great adventure of developing the American economy for all our people in the 21st century.

Thank you.

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February 3, 2000

"THE REGIONAL AND GLOBAL CHALLENGE OF TAX EVASION, CORRUPTION AND MONEY LAUNDERING" TREASURY SECRETARY LAWRENCE H. SUMMERS REMARKS AT THE ANNUAL MEETING OF THE COMMITTEE OF HEMISPHERIC FINANCIAL ISSUES CANCUN, MEXICO

We live in new global economy – a new economy fueled by innovation and technology, the spread of markets, and the advent of emerging market economies. These changes hold out incalculable potential and opportunity for all of our economies. But we know that they also bring important challenges in their wake. In the financial sector especially, integration and technology can bring new life to old vices: be it a company's desire to evade the taxes it owes; a criminal's desire to launder the proceeds of his crime; or the corrupt official's willingness to bend or break the rules.

In a more integrated world, all of these pose a serious threat to our economies and our people – because they undermine the good governance and transparency in institutions on which economic development and growth will increasingly depend. And that threat does not stem solely from the activities that take place within our borders. As interdependence increases – each country is as vulnerable to financial crime as the weakest link in the chain. In that sense they are global public "bads" in the same way that environmental degradation and terrorism are. They are not constrained by national boundaries – and neither must be our solutions.

For all of these reasons, it is right and important that the Finance Ministers of this region should take this opportunity to commit our countries to enhanced national and regional efforts to combat these problems. Just as war is too important to be left to the generals – in a new global economy, the challenge of overcoming corruption and financial crime is too important to be a challenge for law enforcement agencies alone.

Let me very briefly discuss each of these threats to good governance and transparency in our region and our efforts to combat them, including the very important step forward the countries of this region are taking today in the war against international money laundering.

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I. Tax Evasion and Tax Havens

In a more integrated global financial system, offshore jurisdictions have become that much more accessible – and the scope for tax abuse and avoidance has expanded. This puts pressure on national tax systems, particularly in the larger economies. It distorts the economy and the financial system in the jurisdictions that benefit, encouraging non-transparency and a culture of deception. And it threatens to undermine the public trust upon which compliance, in all of our economies, depends.

For all of these reasons, we have devoted priority attention in the United States to combating international tax evasion and avoidance:

- Through greater exchange of information between national tax authorities, including in this region.
- By promoting, in various international organizations, including the OECD, measures to address the concerns raised by non-transparent practices, such as strict bank secrecy, and to address harmful tax competition.
- By examining our own laws to determine what changes are required to prevent the exploitation of tax havens by United States taxpayers. A number of other countries are working along similar lines.

With these meetings, we are delighted that CHFI will provide another force for international action with regard to this issue. I particularly welcome our proposed call for enhanced efforts by the IDB, the World Bank, and member countries to provide support for jurisdictions that are seeking to lessen the regional and global externalities that their financial regimes may create. The United States and the international community have and must continue to recognize and respond to the fact that smaller countries may be directly affected by such efforts, particularly when they have previously earned considerable economic benefit from offshore finance.

II. Corruption

Corruption impedes development by eroding trust in public institutions. It distorts macro-economic, monetary and financial policy decisions, adversely affecting public revenues, discouraging private investment, misdirecting public sector spending, and damaging the credibility of governments by undermining the confidence of both taxpayers and private investors. In all of these ways – the core missions of finance and economic ministries are directly and adversely affected by corruption. But they have not traditionally considered themselves to be in the frontline of combating it.

Increasingly and rightly, that perception is changing. For, if we have learned anything from developments in different emerging market and transition economies in the past decade, it is that there is no better antidote to corruption than the market, and the steps that governments take to enable the market to function. For example:

- Non-transparent financial procedures, excessive regulations, and under-trained and under-paid civil servants all create incentives for bribery and fraud. By the same token, addressing these problems greatly constrains their scope.

- Lack of competition in the financial sector and bribery of financial regulators and supervisors adversely affects the allocation of private capital, permits money laundering to flourish, as well as increasing the vulnerability of financial systems to crises. Properly handled, financial liberalization can therefore combat corruption and money laundering as well as promote growth and financial resilience.

I welcome CHFI's proposed new push in this area, including our call for strengthened IFI efforts, particularly with respect to helping national financial officials find the right ways to promote integrity and tackle corruption in fiscal, budgetary, customs, procurement and financial regulatory administration.

Going forward, we must work to support the same objectives in our own countries – notably through more effective implementation of the objectives of the Inter-American Convention Against Corruption, to bring this Hemisphere into line with the OECD and Council of Europe. In this context I believe a follow-up OAS mechanism for multilateral and mutual review and evaluation of implementation progress can and should play a useful role and bring this Hemisphere into line with anti-corruption efforts in the OECD and the Council of Europe.

III. Money Laundering: A Comprehensive Approach

Money laundering matters for two reasons. First, because it is both the lifeblood for criminals and a means by which they may be caught. And second, because it taints our financial institutions and if left unchecked, eats away at public trust in their integrity.

Addressing this many-layered threat is a challenge of national policy. Last year, President Clinton published the United States' first National Money Laundering Strategy, a comprehensive set of concrete actions we are taking to address the problem, some of which were included in the Money Laundering Act of 1999 that was submitted to Congress in the Fall. If passed, that legislation would for the first time make it a crime to launder money derived from foreign official corruption. It would also make bulk cash smuggling of more than $10,000 a crime – and give our law enforcement officials new tools to go after the largest known money laundering system in this hemisphere, the Black Market Colombian Peso Exchange.

As the latter example highlights, this is equally a challenge of regional and international cooperation. That is why developing and expanding the work of the Financial Action Task Force (FATF) – and its Caribbean regional equivalent, the Caribbean Financial Action Task Force

(CFATF) – is so important. And it is why the creation of a regional counterpart to FATF and CFATF in South America is so welcome.

International fora such as the FATF and the CFATF provide recommendations for specific actions that governments can take to help shield their financial systems from dirty money, and prevent its movement across international borders for criminal purposes. Equally important, these bodies provide mechanisms, such as the Self Evaluation and Mutual Evaluation programs, to ensure that member governments effectively implement these recommendations.

As I said at the beginning of my remarks, those who engage in financial crime derive maximum advantage out of international integration, and so must the governments who want to stop them. We need to expand the community of nations that subscribes to these kinds of protective measures if they are to be truly effective. In that sense the new South American FATF is an idea whose time has come. I thank and salute here the governments of Argentina and Brazil, for their leadership role in working to establish such a forum.

Countries cannot win the war against international financial crime on their own. With the creation of a Caribbean and, now, a South American FATF – they will not have to. What matters is that every country move quickly to make good on the commitment they will make here today, to subscribe to these bodies and work to implement effective and truly collaborative solutions.

In that same spirit of collaboration, let me now hand the floor to my friend and colleague from Argentina, Daniel Marx.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

EMBARGOED UNTIL 2:30 P.M.
February 3, 2000

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 $18,495 million of publicly held securities maturing February 10, 2000, and to pay down about $1,495 million.

In addition to the public holdings, Federal Reserve Banks for their own accounts hold $8,384 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 $3,523 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 $999 million into the 13-week bill and $823 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 FEBRUARY 10, 2000

February 3, 2000

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 DV 0	912795 EW 7
Auction date	February 7, 2000	February 7, 2000
Issue date	February 10, 2000	February 10, 2000
Maturity date	May 11, 2000	August 10, 2000
Original issue date	November 12, 1999	February 10, 2000
Currently outstanding	$11,678 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.

EMBARGOED UNTIL 9:45 A.M.

partment of the Treasury Bureau of Alcohol, Tobacco and Firearms

ATFNEWS

shington, DC 20226 24 Hour Telephone: (202) 927-8500

For Immediate Release February 4, 2000
Contact: Public Affairs, (202) 927-8500

TREASURY, ATF RELEASE FIREARMS REPORT, GUN TRAFFICKING ACTIONS

Treasury Secretary Lawrence H. Summers released a report on Friday announcing that a small number of firearms dealers account for a majority of crime guns traced to active dealers and a series of actions in response to the report's findings. Secretary Summers was joined by Under Secretary for Enforcement James E. Johnson and Director of the Bureau of Alcohol, Tobacco and Firearms (ATF) Bradley A. Buckles.

"This report provides new analysis leading us to new measures in our continuing efforts to decrease firearms violence and to keep guns out of the hands of criminals and youth," said Secretary Summers. "Most important, ATF will conduct intensive inspections of the one-percent of dealers that account for well over half of all crime guns traced last year. If violations of law are found, we will take action against these dealers."

The findings are a part of *Commerce in Firearms in the United States,* which is ATF's first comprehensive report that presents data on the firearms industry and describes ATF's regulatory enforcement programs for combating firearms trafficking. The report documents that:

- 1.2 percent of current dealers (1,020 dealers) account for 57 percent of crime gun traces to active dealers. Each of these dealers had 10 or more crime guns traced to them. Just 0.2% of dealers (132 dealers) had 50 or more crime guns traced to them, accounting for 27% of crime gun traces.

- Congressional reforms enacted in 1993 and 1994 to ensure that only legitimate dealers, manufacturers and importers obtain federal firearms licenses have resulted in a substantial drop in the number of firearms licensees, from approximately 284,000 in 1992 to 104,000 today.

- A small number of retail gun dealers fail to cooperate with ATF requests to trace crime guns, obstructing criminal investigations in these cases. In 1999, approximately 50 retail gun dealers either failed entirely to respond to a trace request, did not respond within the required 24 hours three or more times, or wrongly denied having information that they in fact had.

- In 1998 and 1999, firearms dealers voluntarily reported about 1,900 interstate thefts, involving over 3,700 firearms. Actions to achieve more comprehensive, mandatory reporting is expected to reveal even greater numbers of thefts.

ATF also announced a series of measures it will take in response to the *Commerce in Firearms* Report. These include:

- Conducting intensive inspections of over 1,000 retail dealers and pawnbrokers who have 10 or more crime guns traced to them in 1999. These dealers account for well over half of all crime guns traced to active dealers last year.

- Requiring approximately 450 dealers to provide ATF with certain information (serial number, manufacturer, importer, model) about secondhand firearms they acquire. These dealers sold a significant number of new crime guns that were recovered by police and traced within three years of leaving the gun shop. An estimated two million secondhand guns are sold in the U.S. each year and they are largely untraceable. This initiative will enable ATF to trace used guns sold by dealers associated with high numbers of crime guns.

- Requiring dealers who fail to cooperate with trace requests to send all of their firearms records to ATF so that the firearms they sell can be traced if they are used in crime. ATF will also take regulatory enforcement actions with respect to these dealers, as appropriate.

- Providing the firearms manufacturers and importers, upon request, a list by serial number of the firearms they sold that were traced as crime guns during the previous year. This will enable the manufacturers and importers to police the distribution of the firearms they sell.

- Publishing a Notice of Proposed Rulemaking requiring all Federal Firearms Licensees (FFLs) to conduct regular inventories and report discrepancies to ATF. This will enable FFLs to fulfill their statutory obligations to maintain accurate records of the acquisition and disposition of firearms and report the loss or theft of firearms to ATF.

- Amending the ATF Federal firearms license application to require dealers renewing their licenses to certify how many firearms they acquired and disposed of during the preceding three years. This will provide evidence to enable ATF to deny renewal applications of dealers who are not actively engaged in the business.

"The prevention of violent crime in America is among ATF's primary goals. These measures are another step toward strengthening ATF's ability to effectively prevent and solve violent crime," said ATF Director Bradley Buckles.

Commerce in Firearms in the United States is the first in an annual series of reports that will present data collected by ATF and other federal agencies relating to regulation as well as major developments in the firearms industry. The report can be found on www.atf.gov

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR IMMEDIATE RELEASE
February 4, 2000

Contact: Steve Posner
(202) 622-2960

MEDIA ADVISORY

TREASURY BRIEFING ON ADMINISTRATION'S REVENUE PROPOSALS

Treasury Secretary Lawrence H. Summers will brief on the FY 2001 Budget Greenbook, "General Explanations of the Administration's Revenue Proposals" **at 2 p.m. Monday, February 7** in the Treasury Department's Diplomatic Reception Room (Room 3311), 1500 Pennsylvania Avenue, N.W. Following the Secretary's briefing, other senior Treasury officials will be available for further questions on background.

The room will be available for pre-set at 1 p.m.

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.

Copies of the Greenbook will be available for media at the briefing. In addition, the Greenbook will be available Monday afternoon on the Treasury website at the following address: *http: www.treas.gov taxpolicy library grnbk00.pdf*

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PUBLIC DEBT NEWS

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

FOR RELEASE AT 3:00 PM
February 4, 2000

Contact: Peter Hollenbach
(202) 691-3502

PUBLIC DEBT ANNOUNCES ACTIVITY FOR SECURITIES IN THE STRIPS PROGRAM FOR JANUARY 2000

The Bureau of the Public Debt announced activity figures for the month of January 2000, of securities within the Separate Trading of Registered Interest and Principal of Securities program (STRIPS).

Dollar Amounts in Thousands

Principal Outstanding (Eligible Securities)	$1,879,303,308
Held in Unstripped Form	$1,670,493,736
Held in Stripped Form	$208,809,572
Reconstituted in January	$14,394,153

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, JANUARY 31, 2000

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	4,245,806	4,056,000	38,400
DQ8		12	AD5	05/15/05	4,260,758	1,844,908	2,415,850	0
DR6		10-3/4	AG8	08/15/05	9,269,713	5,907,313	3,362,400	70,400
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	2,214,384	3,791,200	48,000
DP0		11-1/4	912803 AA1	02/15/15	12,667,799	8,139,159	4,528,640	279,040
DS4		10-5/8	AC7	08/15/15	7,149,916	5,173,916	1,976,000	1,000,000
DT2		9-7/8	AE3	11/15/15	6,899,859	2,968,659	3,931,200	230,400
DV7		9-1/4	AF0	02/15/16	7,266,854	6,487,654	779,200	134,400
DW5		7-1/4	AH6	05/15/16	18,823,551	18,689,151	134,400	40,000
DX3		7-1/2	AK9	11/15/16	18,864,448	17,780,288	1,084,160	78,400
DY1		8-3/4	AL7	05/15/17	18,194,169	10,581,849	7,612,320	652,960
DZ8		8-7/8	AM5	08/15/17	14,016,858	10,472,858	3,544,000	886,400
EA2		9-1/8	AN3	05/15/18	8,708,639	3,219,039	5,489,600	372,800
EB0		9	AP8	11/15/18	9,032,870	2,528,870	6,504,000	162,000
EC8		8-7/8	AQ6	02/15/19	19,250,798	11,682,798	7,568,000	1,518,400
ED6		8-1/8	AR4	08/15/19	20,213,832	19,264,392	949,440	75,200
EE4		8-1/2	AS2	02/15/20	10,228,868	8,264,868	1,964,000	258,400
EF1		8-3/4	AT0	05/15/20	10,158,883	2,994,883	7,164,000	272,640
EG9		8-3/4	AU7	08/15/20	21,418,606	8,544,366	12,874,240	1,448,160
EH7		7-7/8	AV5	02/15/21	11,113,373	10,070,173	1,043,200	9,600
EJ3		8-1/8	AW3	05/15/21	11,958,888	6,983,848	4,975,040	679,680
EK0		8-1/8	AX1	08/15/21	12,163,482	9,861,402	2,302,080	564,800
EL8		8	AY9	11/15/21	32,798,394	15,329,894	17,468,500	2,315,425
EM6		7-1/4	AZ6	08/15/22	10,352,790	9,016,790	1,336,000	96,800
EN4		7-5/8	BA0	11/15/22	10,699,626	3,690,026	7,009,600	78,400
EP9		7-1/8	BB8	02/15/23	18,374,361	11,139,161	7,235,200	92,800
EQ7		6-1/4	BC6	08/15/23	22,909,044	18,304,564	4,604,480	246,304
ES3		7-1/2	BD4	11/15/24	11,469,662	3,525,422	7,944,240	112,080
ET1		7-5/8	BE2	02/15/25	11,725,170	2,901,170	8,824,000	180,800
EV6		6-7/8	BF9	08/15/25	12,602,007	7,473,367	5,128,640	95,360
EW4		6	BG7	02/15/26	12,904,916	11,764,516	1,140,400	196,200
EX2		6-3/4	BH5	08/15/26	10,893,818	7,466,618	3,427,200	197,600
EY0		6-1/2	BJ1	11/15/26	11,493,177	8,497,977	2,995,200	292,400
EZ7		6-5/8	BK8	02/15/27	10,456,071	5,929,671	4,526,400	350,400
FA1		6-3/8	BL6	08/15/27	10,735,756	9,812,556	923,200	280,000
FB9		6-1/8	BM4	11/15/27	22,518,539	17,310,539	5,208,000	409,600
FE3		5-1/2	BP7	08/15/28	11,776,201	11,665,401	110,800	28,000
FF0		5-1/4	BV4	11/15/28	10,947,052	10,698,252	248,800	0
FG8		5-1/4	BW2	02/15/29	11,350,341	11,333,541	16,800	16,000
FJ2		6-1/8	CG6	08/15/29	11,178,580	11,178,580	0	0
Total Treasury Bonds............................					525,910,975	359,706,609	166,204,366	13,808,249
Treasury Inflation-Indexed Notes:								
CUSIP:	Series:	Interest Rate:						
912827 3A8	J	3-5/8	912820 BZ9	07/15/02	17,672,350	17,672,350	0	0
2M3	A	3-3/8	BV8	01/15/07	16,738,747	16,738,747	0	0
3T7	A	3-5/8	CL9	01/15/08	17,513,096	17,513,096	0	0
4Y5	A	3-7/8	DN4	01/15/09	16,319,040	16,319,040	0	0
5W8	A	4-1/4	EK9	01/15/10	6,320,164	6,320,164	0	0
Total Inflation-Indexed Notes................					74,563,397	74,563,397	0	0
Treasury Inflation-Indexed Bonds:								
CUSIP:		Interest Rate:						
912810 FD5		3-5/8	912803 BN2	04/15/28	17,489,894	17,489,894	0	0
FH6		3-7/8	CF8	04/15/29	15,070,780	15,070,780	0	0
Total Inflation-Indexed Bonds...............					32,560,674	32,560,674	0	0

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED UNTIL 10:00 A.M. EST
Text as prepared for Delivery
February 8, 2000

TREASURY DEPUTY SECRETARY STUART E. EIZENSTAT TESTIMONY BEFORE THE SENATE BUDGET COMMITTEE

Mr. Chairman, Senator Lautenberg, members of the Committee:

Thank you for the invitation to come here this morning to discuss the tax provisions of the President's FY 2001 Budget as they relate to education.

I am especially pleased to accompany Secretary Riley. No one in public life, except President Clinton himself, has had a longer and deeper commitment to improving education, both as a Governor and a Cabinet member, than Dick Riley. His leadership over the past seven years has been outstanding.

The new and expanded programs that the Secretary has discussed with you, as well as the new tax incentives for education I will cover, are possible as a budgetary matter because of the unprecedented performance of the American economy. In 1993, President Clinton outlined an economic strategy focused on three objectives: fiscal discipline, investments in the nation's infrastructure, including education, science and technology, and opening up foreign markets. This strategy has helped foster conditions for what is now the longest economic expansion in U.S. history. We have experienced, over the last seven years, an extraordinary increase in GDP, in job growth, in worker productivity and in personal income. Not only have we balanced the budget but also, we have begun to pay down the national debt. As our budget figures show, we can afford to make the new investments in education the Secretary spoke of, and at the same time use the tax system to provide major incentives to modernize our schools and to provide greater educational opportunity for more Americans. These programs promise continued gains in the future. By turning out better-educated, more productive young people, by helping workers of all ages improve their skills, we will keep this great engine of our economy going strong.

With the development of the high-tech, information based economy of the 21st century, a high school education is no longer sufficient to provide Americans with the job skills and knowledge required to participate meaningfully in the new economy. A higher education is critical in determining who will prosper and who will be left behind. Real earnings for full-time male college graduates have increased by 15 percent over the past two decades, while they have

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fallen by more than a quarter for male high school dropouts. On average a bachelor's degree is worth some $17,000 more a year in the workplace than a high school diploma. This difference equals an estimated $600,000 over a lifetime.

I would add that the same applies to the world economy. In Southeast Asia and elsewhere, we see that developing countries that have invested in education have become increasingly competitive, while others lag behind. If other countries are to succeed in the global economy of this new century, they must take a far higher proportion of their children out of the factories and farms and put them into schools.

The tax policies in the Budget relating to education are focused on two types of investments: First, those that help construct, repair and modernize facilities to create a physical environment that promotes learning, especially in areas of greatest need; second, those that make it possible for more young people to take advantage of post-secondary education.

School Modernization Bonds

As Secretary Riley testified, there is a great need to modernize our school buildings, expand facilities and furnish our schools with the equipment needed to maximize the educational impact in the Information Age. Currently, about one-third of all public schools need extensive repairs. GAO has estimated that $112 billion is needed for this purpose. The average age of a public school is forty-two years, and school enrollment is higher than ever. Many school districts, however, have insufficient financial capacity to take on these tasks using the traditional method of issuing tax-exempt bonds.

The President's proposal provides for the issuance of $24.8 billion in tax credit bonds over two years to build or renovate up to 6,000 public schools. This proposal would cost $2.4 billion over five years in the budget.

As Secretary Riley testified, the President's proposed School Modernization Bonds proposal would help the federal government to spur new State and local investment in public schools by taking up the interest cost. Instead of receiving tax-exempt interest from the school district, the holder would receive all the interest from the federal government in the form of an income tax credit. The credit would be counted as part of taxable income, thus generating a net yield to the taxpayer that would be equivalent to an equally rated taxable bond. The program would be capped at $11 billion in 2001 and 2002, half of which would go to the 100 school districts with the largest number of children living in poverty, while the other half would be allocated among the states based on Education Act Title I grant formulas. An additional $200 million of bond authority would be set aside in both years for schools funded by the Bureau of Indian Affairs.

This program offers school districts and other issuers a major savings in debt service and with it, the ability to fund far more improvements. A typical 30-year, $10 million issue of tax-exempt bonds at 6 percent interest would require annual debt service payments of about $726,000 for thirty years. Under our proposal, the issuer would pay only $430,000 per year for fifteen years into a sinking fund earning 6 percent interest. This savings of about $296,000 a year would make possible an additional borrowing of $6.9 million of 15-year tax credit bonds, or an additional $4.1 million of 30-year tax-exemptions for school construction or renovation.

We also propose to expand the existing Qualified Zone Academy Bond program, which also uses the tax credit device and is also geared to low-income areas. We propose this program's bonding authority be raised from $400 million to $1.4 billion in 2001 and an additional $1.4 billion in 2002; that these bonds should be made available for purchase by the general public instead of just financial institutions; and that the proceeds be made available for school construction in addition to the purposes allowed in current law (renovation, new equipment, curriculum development and teacher training.) This will make the program more relevant to current needs and, as in the case of the School Modernization program, speed development of efficient primary and secondary markets for the bonds. The revenue cost of both tax credit bond programs would be $2.4 billion in the first five years and $8 billion over ten years.

Closing the Digital Divide

Access to computers and the Internet, and the ability to use this technology effectively, are becoming increasingly important to full participation in our country's economic, political and social life. Unequal access to this technology and high tech skills because of income, educational level, race or geography could deepen the divisions that exist within American society. President Clinton has it a major priority to bridge the Digital Divide, and give all Americans the opportunity to acquire the skills they will need in the new economy of the new century a high priority. To this end, the Budget proposes three tax incentives. The first offers a 50 percent tax credit for corporate cash contributions to Qualified Zone Academies, libraries, and technology education centers in enterprise zones, empowerment communities and other low-income areas. The second offers taxpayers a deduction of two times the cost basis for computers and similar equipment, two years old or less that are donated to libraries and community technical centers. (A similar deduction is already in the Code but is limited to public schools). The third allows employers a tax credit for providing English literacy and workshop literacy, including computer literacy, to their employees. The tax cost of these proposals is $1.2 billion over five years and $2.1 billion over ten years.

Tuition and Expenses

Forty years ago, fewer than 30 percent of our young people who graduated from high school went on to college. Today, two out of every three go directly to college. We are closing in on a long held dream of a college education for every American. Since 1993, the President and Congress have taken numerous steps to make college more affordable, including direct student loans, increased Pell Grants, and the Hope Scholarship and Lifetime Learning tax credits. But tuition costs continue to rise and many students and their families are still struggling to make ends meet.

The President has worked with Members of Congress to design a new College Opportunity Tax Cut that will, when fully phased in, provide up to $2,800 in tax relief for students or their families. It allows the choice of either a 28 percent Lifetime Learning tax credit for tuition and required fees of up to $5,000 for FY 2001 and 2002 and $10,000 thereafter or a deduction up to those limits for such expenses. It can be used to defray the cost of college, graduate school or job training throughout life. It can be used by more than one member of a family.

The College Opportunity Tax Cut is a significant expansion of the Lifetime Learning Credit that Congress approved in 1997. The latter offered a credit of 20 percent and is phased out between $40,000 and $50,000 for single returns and between $80,000 and $100,000 for joint returns. The new proposal raises the credit to 28 per cent, and would raise the phase out range to between $50,000 and $60,000 for single returns and $100,000 to $120,000 for joint returns.

Our proposal also contains the essence of the bipartisan proposal advocated by Senator Snowe and Senator Schumer. It allows taxpayers to take a deduction in lieu of a credit, in those cases where the result would be more favorable to them. Families subject to the Alternative Minimum Tax, those with medical deductions or childcare credits subject to AGI limitations, and some families in states which allow federal deductions but not credits may prefer to use the deduction.

Adoption of these proposals will provide significant tax relief to families that are burdened by the cost of post-secondary education. It will help make lifetime learning a reality. It will also help Americans acquire the skills they will need in this fast changing world if we are to continue our leadership in innovation and achieve the kind of productivity gains that underlie continued high performance by our economy. We believe the cost of this proposal û $11.1 billion over five years and $29.8 billion over ten years is amply justified by the potential benefits.

Other Education Tax Proposals

In addition to the measures described above, the Administration proposes to reinstate the exclusion from gross income for graduate courses paid for by an employer, whether or not those courses are directly related to a taxpayer's current job. This provision was eliminated for graduate courses in 1996. Restoring it will encourage retraining of current and former employees to reflect the changing needs of the workplace. This will cost $400 million over five years.

Millions of students now depend on direct loans and federally guaranteed bank loans to help finance college and graduate school, and they will continue to do so even with the College Opportunity Tax Cut in effect. Currently, our tax laws allow a deduction for interest payments on such loans, but only for 60 months. This limit has caused significant administrative complexity, including in the calculation of the 60-month period in cases where students have more than one loan or when loans are deferred or refinanced. We propose to eliminate the 60-month limit. We appreciate the leadership Senator Grassley has shown on this issue and hope to work with him and the Members of the Committee on this proposal. This will provide longer-term relief to students with significant educational debt, and reduce burdens for taxpayers, lenders, loan servicing agencies, and the IRS. The cost will be $400 million over five years and $900 million over ten years.

We are also proposing an exclusion from gross income in certain situations: First, when the recipient has elected to base the size of repayment installments on the amount of his or her income, and the loan is still not fully paid after 25 years: Second, when scholarships are granted under the National health Services Corporation Scholarship Program and the Armed Forces Health Professions Scholarship and Financial Assistance Program. A third would exclude repayment or cancellation of a student loan under those two programs, as well as the Americorps program, all of which provide important health, education and other services to underserved areas and the military.

In conclusion, Mr. Chairman, this nation could not have turned in the economic performance it has, and could not be the world economic leader it is, had we not made a massive commitment to the education of our people in the last half century, beginning with the G.I. Bill and continuing through the Pell Grants, Hope Scholarships and Lifetime Learning credits, on to the Budget the President submitted yesterday. We strongly intend to continue this progress, for the benefit of our entire country. Secretary Riley and I strongly commend these new provisions to you as you begin your work on this year's Budget Resolution.

Thank you.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED UNTIL 10 A.M. EST
Text as Prepared for Delivery
February 8, 2000

**TREASURY ASSISTANT SECRETARY FOR INTERNATIONAL AFFAIRS
EDWIN M. TRUMAN
TESTIMONY BEFORE THE SENATE BANKING COMMITTEE
SUBCOMMITTEE ON ECONOMIC POLICY**

Introduction:

Mr. Chairman, thank you for the opportunity to testify on the issue of dollarization and your proposed legislation that would establish a framework for potentially sharing seigniorage with countries that decide to dollarize. Given the interest in dollarization recently expressed in several Central and South American countries, your initiative is highly relevant. The issue of dollarization has many economic, financial, and political dimensions. In my testimony this morning, I focus primarily on the economic and financial aspects.

As the Administration has stated in prior testimony on the subject of dollarization, we do not have a view on whether dollarization is advisable in general. Each country, in principle, can dollarize unilaterally, and it must bear the responsibility to decide in light of its own economic and political circumstances if dollarization is the appropriate policy to pursue.

From the U.S. perspective, as Secretary Summers testified last April, it would not be appropriate for U.S. authorities to adjust the procedures or orientation of U.S. monetary policy in light of another country's adoption of the dollar; to extend banking supervision to that country's banks; or to provide access by those banks to the Federal Reserve's discount window. We have not changed our view. On the issue of sharing seigniorage, as we have said earlier, Congressional action would be required to permit the United States to pay seigniorage to a dollarizing country. Further, we believe strongly that, during the process of deciding whether to share seigniorage with any given country, there should be extensive consultation by the Administration with the Congress to limit the scope for subsequent problems. The technical issues associated with dollarization are many and complex, and we also would certainly want to draw upon the expertise

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of other agencies, including the Federal Reserve.

Considerations for dollarizing countries

A country's decision to end the legal tender status of its national currency and to bestow that status on the U.S. dollar is momentous regardless of the circumstances. The reasons a country may choose to dollarize can be varied, and the benefits are potentially significant. However, it is essential to remember that dollarization cannot substitute for sound macroeconomic policies, robust institutions, and flexible markets. The principal benefits of dollarization are the credibility and policy discipline derived from its implicit irrevocability. Its principal economic cost is the renunciation of national monetary autonomy.

The basic trade-off associated with dollarization is between the advantages and disadvantages of a regime with some degree of exchange rate and monetary policy flexibility and a regime with none. Exchange rate adjustment is a potential shock absorber and also allows greater scope for national monetary autonomy. However, that potential must be balanced against the added macroeconomic policy discipline and credibility associated with rejecting all scope for discretionary monetary policy and adopting the currency and monetary policy of another country with such credibility. As in all meaningful trade-offs, judgments about the appropriate balance can differ across countries and their circumstances. Moreover, sound fundamental policies and institutions are needed to underpin any credible currency regime. In particular, a dollarizing country, like all countries, should have a sustainable fiscal position, a healthy banking system, flexible and well-functioning labor markets, open capital markets, and an environment in which private property is respected and contracts are enforced.

In addition to assessing its economic fundamentals, a country considering dollarization must weigh carefully the potential benefits against the potential costs. On the one hand, the implicit irrevocability of dollarization holds the promise of lower interest rates, lower inflation rates, higher levels of economic activity, greater financial stability, and deeper financial markets. These benefits can be expected to be especially attractive to a country with a record of financial instability and high inflation, but financial and fiscal crisis may still occur with dollarization.

On the other hand, the monetary authorities of a dollarizing country would be ceding the capacity to use monetary or exchange rate policy to cushion the economy against external or internal disturbances. Moreover, there is no guarantee that the exchange rate used to convert a country's domestic currency into dollars, thereby fixing that exchange rate irrevocably, will be the right exchange rate for the near term. Setting that conversion rate either too high or too low could have adverse implications for the real economy's short-term performance. Over time, if domestic prices and wages cannot adjust rapidly in response to disturbances, dollarization could also mean greater volatility in output and employment. Dollarization should not greatly impede the ability of the authorities to provide very short-term liquidity to individual banking institutions, but the authorities would lose much of their scope to respond to a systemic threat to the banking system.

For a country that has already made a strong commitment to a permanently fixed exchange rate, the balance of considerations with respect to dollarization differs. The scope for adjustment working through the exchange rate or domestic monetary policy is, in principle at least, already limited. Therefore, the effective costs of dollarizing may be lower along with the effective benefits. However, even a fixed exchange rate regime has an exit option, which is presumed to be lost with dollarization. Nevertheless, it is worth noting that many observers, including Paul Volcker, have suggested that in the wake of continuing globalization, the years and decades ahead may see a dramatic decline in the number of independent currencies in the world.

Considerations for the United States

Obviously, countries can choose to adopt the dollar as legal tender without our assent. However, we hope and expect that countries would consult with us in advance because there are potential benefits as well as costs to the United States from the adoption of such a policy. The benefits include increased seigniorage; reduced transaction costs for U.S. resident importers, exporters, borrowers, and lenders; the possibility of increased business for U.S. banks and other financial institutions; and the "power and prestige" that might be associated with having a more international currency. Indirectly, the United States would benefit from increased economic activity or greater financial stability that would be expected in the countries that dollarize successfully.

However, dollarization also involves potential costs or burdens for the United States. U.S. economic and regulatory policy makers could come under pressure from the authorities of the dollarized country to help support their economy's economic and financial stability. Questions have likewise been raised about the possible impact attitudes toward the United States in a dollarized country at times of financial stress. To the extent that dollarization furthered economic and other ties, this would normally be expected to be seen as a benefit to both the United States and the dollarized country. However, in difficult times, or when U.S. monetary policy is considered inappropriate or inconvenient for the dollarized country, there would be the risk that U.S. policies would foster resentment and encourage policy makers to deflect blame for their countries' problems onto the United States. Finally, if a substantial number of large countries should choose to dollarize, the monetary and exchange rate flexibility currently enjoyed by the United States itself would potentially be reduced.

Seigniorage sharing

A decision by another country to adopt the dollar as its currency would increase U.S. seigniorage revenues —in effect lowering the cost of financing U.S. government debt and improving the U.S. fiscal balance – because such an action would be expected to lead to increased holdings abroad of dollar currency. However, the size of this increase in the short run, let alone over time, remains an unanswered empirical question. The question of whether it would be appropriate to share those revenues or savings is an important public policy question. As noted above, dollarization may bring potential benefits to the United States as well as the dollarizing country, but also potential costs.

Looking at seigniorage sharing narrowly, in principle, a decision by the United States to share the seigniorage revenues associated with the increased amount of dollars in circulation as a consequence of a country's decision to dollarize would not cost the U.S. taxpayer anything. However, if a country would have dollarized anyway, or has large amounts of dollars circulating already, then sharing seigniorage with the United States would imply foregoing additional seigniorage revenues. At the same time, if the benefits of dollarization to a country are significant, they should outweigh the lost seigniorage. In other words, the deciding factor for either country should not be whether seigniorage would be shared.

One added potential risk to the United States from the sharing of seigniorage is that it may imply a degree of U.S. endorsement or ownership of a country's decision to dollarize. Unless carefully designed and implemented, dollarization also could lead to unintended legal or financial complications and potential liabilities for the United States, particularly if a country seeks creative ways to meet its banking system's short-run liquidity needs – to provide lender-of-last-resort support for the domestic banking system – by securitizing potential seigniorage flows.

Sharing of dollar seigniorage raises complex questions. For example, where would we draw the line on the sharing of seigniorage? If the United States decided to share our increased seigniorage with one dollarizing country does that mean we would stand ready to share it with all countries that we view as meeting the economic criteria for dollarization and seigniorage sharing? How would we decide the right amount of seigniorage to share?

Senator Mack's proposed legislation suggests answers to some of these questions. He has contributed importantly to the intellectual debate on both dollarization and seigniorage sharing. The proposed legislation is one approach to arrangements for potential seigniorage sharing, that is, pass legislation to give the Treasury Secretary discretionary authority to rebate seigniorage to a specified degree to any country that makes such a request as long as it meets certain conditions. That approach has the advantage of providing a country that is considering dollarization with a framework within which to consider its decision and, in the process, may encourage responsible dollarization.

On the other hand, each country is likely to come to its decision to dollarize in the context of different economic, financial, and political circumstances, and U.S. attitudes toward that decision may differ depending on those circumstances. Another approach, therefore, would be to wait until a country makes a concrete request to share seigniorage and then consider specific legislation that would enable us to do so under the particular circumstances.

Let me mention some of the technical issues and complexities that would be involved in seigniorage sharing. The calculation of the appropriate amount of seigniorage to share is tricky. The Federal Reserve has only estimates of the total amount of dollars circulating outside the United States. We have no way of knowing the actual amount circulating abroad, and estimates of the amount used by the residents of any one country are even rougher. Thus, any formula for sharing seigniorage inherently would be only an approximation of the actual seigniorage "lost" by the dollarizing country or "gained" by the United States as a result of a country's decision to dollarize.

If it were decided to adopt seigniorage sharing as U.S. policy, important implementation challenges would arise in order to have reasonable confidence that the "right" amount is shared. U.S. taxpayers would want some assurance that they are not being exploited by seigniorage "rebates" to foreign countries in excess of additional seigniorage that is being "gained" by the United States. While the approach suggested in the proposed legislation is plausible, several considerations would arise about its actual implementation. These include:

- Recognition that we would have no way of knowing the actual amount of U.S. currency in circulation in a given country at any point in time.

- Second, it can not be fully guaranteed that a country would not receive more than its "fair share" of seigniorage revenues. For example, the formula in the Chairman's proposed legislation assumes implicitly that the dollarized economy has the same income elasticity of demand for currency as the United States and other countries in the world that use dollars. If the income elasticity of demand for currency was lower in the dollarizing economy, seigniorage sharing calculated by the formula would be too large. This would also be the case if the demand for cash in the dollarizing country were to fall as the demand for other monetary aggregates rose, for example, as a result of enhanced intermediation or the repatriation of flight capital.

- Third, some might raise questions about the appropriate interest rate to use as a proxy for the opportunity cost of holding cash in dollars. This is also not a matter that can be settled on a factual basis. One could argue that the interest rate on U.S. government bonds would be appropriate because that rate most closely reflects the long-term liability nature of money. One could also argue that the 90-day Treasury bill rate as specified in the proposed legislation is more appropriate because it is a good proxy for the opportunity cost of holding reserves, as well as the net return on the Federal Reserve's portfolio. Given the generally upward slope of the U.S. yield curve, the use of a short-term interest rate has the added benefit of being more conservative from a U.S. perspective than the use of a long-term rate. A third concept might be the rate that the dollarizing country would have earned on its dollar-denominated assets, which depends on the composition of its portfolio of such assets.

- Fourth, any approach for sharing seigniorage with countries that have already officially dollarized inherently cannot be expected to reflect with complete accuracy a country's actual holding of dollars now or in the future.

- Fifth, some might raise questions about whether there should be allowance for the ex-ante partial, but substantial, dollarization of countries, such as Argentina, that ultimately decide to fully and officially dollarize.

Nevertheless, these questions have reasonable answers as long as one is prepared in some instances to be satisfied with less than full precision.

I should also note that an approach to sharing seigniorage by means of paying interest on a consol issued by the United States would raise issues about the status of this security under the laws that govern the management of U.S. debt. Moreover, issues about the budgetary treatment and the full legislative implications of sharing seigniorage would have to be addressed.

Let me make one final comment on Chairman Mack's thoughtful legislation. The ten actions that the Treasury Secretary would be required to take into consideration in determining whether to certify that a country has officially dollarized, and is eligible for seigniorage sharing, are definitely relevant. To such actions, however, there may be other important factors to consider before we decide to share our increased seigniorage. For example, dollarization is more likely to succeed in a given country if, at the time of dollarization, a country's foreign reserves cover at least the local currency in circulation, and the commitment of the country's citizens to dollarization is high. Furthermore, the economic and financial context in which dollarization takes place can also play an important part in determining its success. Dollarization as a part of a coherent long-term economic strategy is likely to be a more successful than dollarization in response to a financial crisis. The latter is more likely to involve hasty decisions with unforeseen consequences.

Conclusion

In conclusion, again I want to commend you, Mr. Chairman, for your thoughtful proposal and many contributions to a complex and increasingly relevant policy discussion. We will want to continue an open dialogue with Congress and other interested parties as we proceed to analyze further the many facets of this subject.

Thank you, Mr. Chairman, and the other members of this subcommittee for your time. I will be happy to respond to any questions.

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PUBLIC DEBT NEWS

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

IMMEDIATE RELEASE
ruary 07, 2000

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Term:	91-Day Bill
Issue Date:	February 10, 2000
Maturity Date:	May 11, 2000
CUSIP Number:	912795DV0

High Rate: 5.545% Investment Rate 1/: 5.719% Price: 98.598

All noncompetitive and successful competitive bidders were awarded urities at the high rate. Tenders at the high discount rate were otted 81%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 24,419,002	$ 7,326,162
Noncompetitive	1,454,693	1,454,693
PUBLIC SUBTOTAL	25,873,695	8,780,855 2/
Foreign Official Refunded	230,000	230,000
SUBTOTAL	26,103,695	9,010,855
Federal Reserve	4,544,485	4,544,485
Foreign Official Add-On	0	0
TOTAL	$ 30,648,180	$ 13,555,340

Median rate 5.540%: 50% of the amount of accepted competitive tenders tendered at or below that rate. Low rate 5.470%: 5% of the amount accepted competitive tenders was tendered at or below that rate.

to-Cover Ratio = 25,873,695 / 8,780,855 = 2.95

Equivalent coupon-issue yield.
Awards to TREASURY DIRECT = $1,103,338,000

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PUBLIC DEBT NEWS

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

IMMEDIATE RELEASE
ruary 07, 2000

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Term:	182-Day Bill
Issue Date:	February 10, 2000
Maturity Date:	August 10, 2000
CUSIP Number:	912795EW7

High Rate: 5.770% Investment Rate 1/: 6.042% Price: 97.083

All noncompetitive and successful competitive bidders were awarded urities at the high rate. Tenders at the high discount rate were otted 75%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 19,293,415	$ 3,787,765
Noncompetitive	1,213,416	1,213,416
PUBLIC SUBTOTAL	20,506,831	5,001,181 2/
Foreign Official Refunded	3,000,000	3,000,000
SUBTOTAL	23,506,831	8,001,181
Federal Reserve	3,840,000	3,840,000
Foreign Official Add-On	129,000	129,000
TOTAL	$ 27,475,831	$ 11,970,181

Median rate 5.750%: 50% of the amount of accepted competitive tenders s tendered at or below that rate. Low rate 5.670%: 5% of the amount accepted competitive tenders was tendered at or below that rate.

d-to-Cover Ratio = 20,506,831 / 5,001,181 = 4.10

Equivalent coupon-issue yield.
Awards to TREASURY DIRECT = $898,930,000

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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U.S. International Reserve Position

February 8, 2000

The Treasury Department today released U.S. reserve assets data for the week ending February 4, 2000.

As indicated in this table, U.S. reserve assets totaled $69,736 million as of February 4, 2000, down from $70,028 nillion as of January 28, 2000.

US millions)	January 28, 2000			February 4, 2000		
)fficial U.S. Reserve Assets — TOTAL	70,028			69,736		
	Euro	Yen	TOTAL	Euro	Yen	TOTAL
Foreign Currency Reserves [1]						
a. Securities	4,906	5,991	10,896	4,914	5,969	10.884
Of which, issuer headquartered in the U.S.			0			0
b. Total deposits with:						
b.i. Other central banks and BIS	8,448	11,596	20,043	8,448	11,554	20.002
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
IMF Reserve Position [2]			17,791			*17,641*
Special Drawing Rights (SDRs) [2]			10,248			*10.162*
Gold Stock [3]			11,048			11 048
Other Reserve Assets			0			0

/ 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.

'/ 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 ate. Consistent with current reporting practices, IMF data for January 28, 2000 are final. Data for SDR holdings and the reserve position in he IMF shown as of February 4, 2000 (in italics) reflect preliminary adjustments by the Treasury to the January 28, 2000 IMF data.

3/ Gold stock is valued monthly at $42.2222 per fine troy ounce. Values shown are as of December 31, 1999. The November 30, 1999 value was $11,049 million.

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U.S. International Reserve Position (cont'd)

Predetermined Short-Term Drains on Foreign Currency Assets	January 28, 2000	February 4, 2000
:oreign currency loans and securities	0	0
\ggregate short and long positions in forwards and utures in foreign currencies vis-à-vis the U.S. dollar:		
:.a. *Short positions*	0	0
:.b. *Long positions*	0	0
)ther	0	0

Contingent Short-Term Net Drains on Foreign Currency Assets	January 28, 2000	February 4, 2000
:ontingent liabilities in foreign currency	0	0
ı. Collateral guarantees on debt due within 1 year		
). Other contingent liabilities		
oreign currency securities with embedded options	0	0
Indrawn, unconditional credit lines	0	0
.a. *With other central banks*		
.b. *With banks and other financial institutions headquartered in the U.S.*		
.c. *With banks and other financial institutions headquartered outside the U.S.*		
ggregate short and long positions of options in foreign urrencies vis-à-vis the U.S. dollar	0	0
.a. *Short positions*		
4.a.1. Bought puts		
4.a.2. Written calls		
.b. *Long positions*		
4.b.1. Bought calls		
4.b.2. Written puts		

PUBLIC DEBT NEWS

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

ι IMMEDIATE RELEASE
›ruary 08, 2000

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 4-3/4-YEAR NOTES

This issue is a reopening of a note originally issued November 15, 1999.

:erest Rate:	5 7/8%	Issue Date:	February 15, 2000
:ies:	H-2004	Dated Date:	November 15, 1999
;IP No:	9128275S7	Maturity Date:	November 15, 2004
۱IPS Minimum:	$1,600,000		

High Yield: 6.741% Price: 96.505

All noncompetitive and successful competitive bidders were awarded :urities at the high yield. Tenders at the high yield were lotted 98%. All tenders at lower yields were accepted in full.

Accrued interest of $ 14.84890 per $1,000 must be paid for the period ɔm November 15, 1999 to February 15, 2000.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 22,214,080	$ 11,392,080
Noncompetitive	608,167	608,167
PUBLIC SUBTOTAL	22,822,247	12,000,247 1/
Federal Reserve	1,129,796	1,129,796
Foreign Official Inst.	1,100,000	1,100,000
TOTAL	$ 25,052,043	$ 14,230,043

Median yield 6.710%: 50% of the amount of accepted competitive tenders s tendered at or below that rate. Low yield 6.650%: 5% of the amount accepted competitive tenders was tendered at or below that rate.

.d-to-Cover Ratio = 22,822,247 / 12,000,247 = 1.90

Awards to TREASURY DIRECT = $332,752,000

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DEPARTMENT OF THE TREASURY

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EMBARGOED UNTIL 10 AM EST
Text as Prepared for Delivery
February 9, 2000

TREASURY DEPUTY SECRETARY STUART E. EIZENSTAT
TESTIMONY BEFORE THE HOUSE BANKING COMMITTEE

Mr. Chairman, Mr. LaFalce, I want to thank you, and the members of this committee, for holding this latest in a series of hearings. Your steady focus on Holocaust related issues has helped elevate them in the moral conscience of the world, and the work of individual Members of this Committee has given important support to our government's actions in this area.

I also want to thank you for inviting my long time friend and colleague, Count Lambsdorff, to join me on this panel. Count Lambsdorff is a dedicated friend of the United States, a man who has done much during his distinguished political career to strengthen the relationship between our two countries. In his current capacity as the Chancellor's special representative, he sits with me as co-chairman of the German Foundation Initiative negotiations to provide some measure of justice to public and private sector forced and slave laborers and others who suffered at the hands of German companies during the Nazi era. It is evidence of the German government's seriousness of purpose and sense of moral obligation that the Chancellor chose a man of the Count's public stature to represent his country in these talks. In addition, he has the full backing of German industry.

Slave and Forced Labor Negotiations

I turn now to the current negotiations on slave and forced labor. They are focused on the establishment and funding of a new German entity to be called the Foundation for Remembrance, Responsibility and the Future. It will be the mechanism through which all those who worked as forced and slave laborers and those who suffered at the hands of German companies during the Nazi era can receive dignified payments.

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Since your hearing last September, German industry and government agreed to raise their combined contribution to the foundation's capitalization to DM 10 billion, half from German industry and half from the German government. This was announced on December 17 in Berlin. This offer was a substantial increase over the initial German proposal of DM 6 billion in October and a subsequent offer of DM 8 billion in November.

All the parties to these negotiations -- 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 lawyers' for the victims -- accepted the DM 10 billion offer as the capped amount for the German Foundation and the sum that will resolve the lawsuits in U.S. courts.

The process that led to this agreement has been long and complicated, and all the participants have had to show flexibility and good will. We could not have reached agreement on the DM 10 billion without the personal involvement and leadership of President Clinton and Chancellor Schroeder, as well as other senior officials in the U.S. and German governments. I also want to cite the constant support and personal involvement of Secretary Albright, Secretary Summers, White House Chief of Staff John Podesta, and National Security Adviser Sandy Berger.

I should also mention here the very significant contribution of German President Rau to this process. President Rau has been a consistent voice stressing the moral aspects of these issues. On December 17, in Berlin, and in the presence of Holocaust survivors, he said the following:

"I know that for many it is not really money that matters. What they want is for their suffering to be recognized as suffering, and for the injustices done to them to be named injustices. I pay tribute to all who were subjected to slave and forced labor under German rule and, in the name of the German people, beg forgiveness."

President Rau's apology provides assurance to many that the last word on the Holocaust will not be about money. Given the significance of President's Rau's statement, I would appreciate be allowed to include it in the record of today's hearing.

I want to emphasize that despite the critical importance of what was agreed in Berlin on December 17, final settlement requires subsequent agreements on a number of issues, most importantly on an equitable allocation of the DM 10 billion among various groups and classes of claimants, and on the substance of the legislation that will define the administrative structure and operation of the German Foundation.

The Washington Plenary

Last week in Washington, over one hundred delegates, representing all the parties to the negotiation, assembled at the State Department for our eighth plenary session. Preparations for this meeting included numerous smaller meetings between various sides over the preceding six weeks since the Berlin agreement on the capped amount. The focus of our efforts in Washington were two: the issue of allocation, and bringing the draft German implementing legislation into alignment with agreements already reached in negotiations.

Allocation

At the outset, Count Lambsdorff and I agree that it is very important that the "victim side" be actively engaged in finding the compromises necessary to ensure that all elements of the Foundation are appropriately funded. To help focus those discussions, I proposed the following set of principles to guide discussions:

Slave and Forced labor shall have the highest priority in allocating Foundation funds. Payments shall include an inclusive category for personal injury and other cases, including but not limited to, medical experimentation, mothers of "Kinderheim" cases as well as all other personal injury cases directly involving German companies.

An allocation shall be made for aryanized property claims against German companies and for heirless/humanitarian/insurance claims.

An allocation shall be made for the Future Fund for projects of tolerance, taking into account the heirs of forced labor.

Administrative expenses shall be paid from interest on deposited funds.

Decisions on allocations should be made recognizing that the Foundation provides a potential remedy for any possible claim against German companies arising out of the Nazi era.

The United States strongly supports the efforts of the victims' groups to reach agreement on a fair and equitable allocation that can be set into the German law.

Following these principles should ensure an equitable balance between competing requirements for the limited funds available.

I am pleased to report that at the Washington plenary, very significant progress was made on allocation, sufficient for me to say that I believe that we may well be able to conclude this key aspect of the settlement soon.

Draft Legislation

The German Foundation will be established under German law. We welcome this for two reasons: first, because it is the vehicle through which the German government will appropriate their half share of the DM 10 billion, and second, because it will subject the Foundation to well established oversight and accountability requirements that charitable organizations in Germany must meet.

But, I will tell this Committee frankly that embodying the results of our nine-month negotiation in the draft legislation, based on a German Government's draft and the German legislative process, is a sensitive and difficult undertaking. I am pleased to say that the German government met intensively with us over the past six weeks, and engaged all parties to the negotiations at the Washington plenary.

To add weight to the German government's commitment to deal fairly with the parties to the negotiation, the German delegation to the Washington plenary included, as in the past, representatives from the five major Bundestag parties, all of whom took an active and extremely helpful part in discussions and will take the lead in the legislative process in Germany. In addition, I am pleased to accept the Bundestag Domestic Affairs Committee invitation to testify next week in Berlin. I believe that the German government fully recognizes the importance of submitting draft legislation to the Bundestag that reflects the commitments and understandings reached during our negotiations.

One of the most difficult tasks we face is to define the scope of the Nazi-era wrongs perpetrated by German industry that the Foundation will cover in its claims process. We are working to ensure that the Foundation's coverage is so broad that the United States will be able to file a Statement of Interest in U.S. courts in all cases brought against German companies arising out of the Nazi era. This Statement of Interest is a central element in the achieving the "legal peace" that the German companies seek. At our plenary meeting last week in Washington, we had a very productive discussion, and I am gratified that the German government has reaffirmed it intention to revisit the issue of the Foundation's scope in light of those discussions.

Offsets

Also contained in early drafts of the legislation was a provision that would "take account of" previous or ongoing payments by the German government to a

Holocaust victim but reducing the payments from the German Foundation. I urgently sought German agreement to drop this provision. It would have unfairly reduced the payment of thousands of Holocaust survivors -- many of whom are U.S. citizens -- who were forced to work in unspeakable conditions under the Nazis. Previous German programs, such as the German Federal Compensation Law (BEG), make payments to those whose liberty was taken from them.

I am pleased to report that at the Washington meeting, the German side has committed to alter this provision in accordance with the concerns expressed by delegations.

There was also and "anti-accumulation" clause that would limit the amount any one individual could receive from the German Foundation. Since, the Foundation will hold accounts to pay claims for injury and property loss from banks and insurance companies, as well as for other injuries received at the hands of German industry, such as medical experimentation, this provision was patently unfair.

At the Washington meeting, the German negotiators committed to alter these two provisions in accordance with the concerns expressed by delegations.

There has been a good deal lot of expectation and confusion over who will benefit from the successful conclusion of these negotiations. Let me emphasize a few points:

- American citizens who qualify will receive the same benefits as anybody else, and their applications will be process by an organization or organizations in the U.S. Travel to Germany or elsewhere will not be required.

- American citizens will be able to exclude their benefits from income under a tax provision in President Clinton's 2001 Budget that provides a clear statutory exemption for Holocaust-related reparations.

- No racial, ethnic or religious group will get favorable treatment. A slave or forced laborer is a victim of the Holocaust, whether he or she is a Czech, Pole, Jew, Romani or another nationality or religion.

- Detailed explanations of exactly who is eligible and how to apply for a benefit will be widely publicized. As I have testified, these important details are still under negotiations. But, please be assured the outreach effort --once a settlement is concluded -- will be comprehensive.

- I am hopeful, however, that those victims who will not directly benefit, indeed all men of good will, will take real pleasure in the knowledge that at least this group of deserving Holocaust survivors will get recognition for their suffering and at least some small measure of justice.

- Despite the large price tag, and the hundreds of thousands of people who will eventually benefit, a settlement when reached will still only cover a limited number of Holocaust victims and a limited number of crimes. Other survivors will not benefit because the crimes committed against them did not involve slave or forced labor or "aryanization" of property, or stolen insurance policies. In short, they were not crimes committed by German industry during the Nazi era.

<u>Other Holocaust Related Issues</u>

As I have said, the Holocaust is a compilation of crimes, and we have approached the issue on many fronts.
I would now like to review the many other areas in which we are engaged, including art recovery – a subject in which you have taken an especially active role, recovering insurance policies, the Swiss bank settlement, and other issues.

<u>Art Restitution</u>

On art restitution, work is going ahead in many countries in line with the principles adopted at the art section of the Washington Conference a year ago December, at which you, Mr. Chairman, presided. Tomorrow you will hear from representatives of the American museum community as well as others with respect to how and to what degree these principles have succeeded in guiding the art world and fostering communication and cooperation among the various players. Major museums, such as the National Gallery and the Metropolitan Museum of Art in New York City have been researching their collections. I would note that just last week, the North Carolina Museum of Art announced that one of its paintings, Madonna and Child in a Landscape, by the German master Lucas Cranach the Elder, had been stolen by the Nazis and is actually owned by the heirs of a Viennese physician. In keeping with the Washington principles, the Museum researched the question of provenance, working in cooperation with the Holocaust Claims Processing Office of the State of New York and the Commission for Art Recovery of the World Jewish Congress.

Let me take a moment, however, to highlight how the U.S. Government has been working to move this process forward. In my testimony last fall, I noted we had participated in an April 1999 hearing of the Cultural Committee of the Council of Europe in Paris on "Looted Jewish Cultural Property." As a result of that hearing, the Committee prepared model legislation on the return of Jewish cultural property. The Parliamentary Assembly of the Council adopted this resolution last November. This model legislation should initiate new legislation on this subject in European national parliaments, similar in scope to the groundbreaking restitution laws adopted by Austria.

The Lithuanian Government announced at the end of January that, under the auspices of the Council of Europe, it was inviting representatives of the world community to a forum on cultural properties of Holocaust victims to be held in Vilnius in October.

Germany's Cultural Minister recently announced that Germany will inaugurate a web site to help restore Nazi-confiscated art to its rightful owners. All major German museums were called upon to inspect the provenances of the artwork in their possession. Any artwork -- including coin collections and artifacts -- that are found to have unclear provenances will be publicized, with pictures, on the web site. This initiative follows the lead of the web site the French government has posted for many years to display art returned to France after the War but never claimed.

Holocaust Issues and Switzerland

Regarding Switzerland the Vice President and I visited Switzerland a year ago in January 1999 and met with then Swiss President Ruth Dreifuss. President Dreifuss reiterated her government's support for completion of work by various commissions on Holocaust-related issues. She also noted that the government remains committed to creating a "Solidarity Foundation" out of Switzerland's gold reserves that would, inter alia, support Holocaust survivors.

In recent months, it has become apparent that the Swiss Government faces some domestic opposition to its proposal for a Solidarity Foundation. The timing for introduction of Foundation legislation remains uncertain; a referendum would be likely if a bill passes. Many hope that the Government can move forward to present Solidarity Foundation to people for approval this year.

In early December, the Volcker Committee released its final report that was critical of Swiss bank behavior for hindering access by heirs to dormant accounts of Nazi victims after the War. The Committee also revealed that there were more accounts of Holocaust victims than indicated by earlier surveys. The Committee recommended that the Swiss Federal Banking Commission authorize publication of the names of 25,000 account owners that have a strong probability of being related to victims of Nazi persecution. The Swiss are expected to make a decision on this matter in March. The Committee also recommended that 59 Swiss banks consolidate their databases, which are now separate and contain 4.1 million names, to facilitate the process of matching the names of account owners to those who died in the Holocaust. We hope that these recommendations can be acted upon favorably.

The Bergier Historical Committee released in December a report that is highly critical of Swiss government actions during World War II, noting that many refugees were returned to Nazi-occupied countries and sometimes the Swiss authorities confiscated the assets of refugees.

The Swiss Government very courageously welcomed the release of both reports and their forthright conclusions. The Government also apologized for the suffering, deportation, and death caused by Switzerland's World War II policies. (I note parenthetically that other countries, including the United States, barred entry to refugees from the Holocaust) We commend Switzerland's response to the Volcker Committee's and the Bergier Committee's conclusions. It demonstrates openness and a willingness to look honestly at its past.

Despite the August 1998 settlement of the class action litigation settlement entered into between Holocaust victims and Swiss banks, the court has not yet approved a distribution plan, and thus the 1.25 billion dollars to Holocaust victims have not yet been distributed. The procedures inherent in our class actions often require 18 months before distributions can be made to claimants. Judge Korman plans to have a fairness hearing on the settlement on March 15. In recent weeks, the court has asked the Swiss authorities to provide the information. I understand the Court needs the refugee database and a list of German companies whose assets were frozen in Switzerland during the War. The process for early court approval of the settlement depends on the court having available all the information necessary to final judicial approval, including information from the Swiss authorities. With this information, the Court may be able to approve the distribution plan in March and conclude matters by June.

Communal Property

On communal property, we continue to work with the Central European governments on restituting to rightful owners' property belonging to Europe's religious communities that both the Nazi regime and subsequent communist governments had confiscated.

When I commenced working on Holocaust issues in 1995, much of my early activity was focused on restituting property to rightful owners. Both the Nazi regime and the communist governments of central and Eastern Europe had confiscated significant amounts of property belonging to Europe's religious communities. The new democratic governments had just begun to deal with the issue.

Restituting property is a complex matter. Some of the properties are located in what are now highly developed urban areas and are being used not merely for commercial purposes but also for such social purposes as medical treatment and education. Changing ownership and use after a more than a half century is difficult at best.

At the same time, governments must realize that honoring property rights is a pre-requisite to participating in the international marketplace and in attracting investment. So while initially expensive and politically sensitive, sound property restitution systems are clearly in the interest of all the central and Eastern European countries.

In my discussions with government officials, I have emphasized a number of principles that seem to me to be important to keep in mind in addressing property restitution issues. These principles include:

- Equitable, transparent and non-discriminatory procedures to evaluate specific claims.

- Access to archival records and use of alternative forms of evidence if primary documents no longer exist.

- Implementation of restitution policies at regional and municipal levels.

- Non-discriminatory procedures, without citizenship or residence requirements.

- Clear and simple legal procedures.

- Implementation of court decisions on the basis of equality and non-discrimination.

- Priority of restitution claims before privatization occurs.

- Provisions for the present occupants of restituted property.

- Transfer of clear title including the right of resale, not simply the right to use property, which could be revoked at a later time.

- Restitution or compensation for communal property irrespective of whether the property had a religious or secular use.

- Establishment of foundations, managed jointly by local communities and international groups, to aid in the preparation of claims and to administer restituted property.

- Protection of cemeteries and other religious sites.

As I did in my testimony before this committee last September, I am appending to my written statement a country by country summary of property issues. I want to discuss in some detail, however, the issues of both private and communal property in Poland.

In September, the Polish government submitted to parliament legislation dealing with private property which was non-discriminatory in terms of allowing former Polish citizens and their heirs who now live outside of Poland to claim their property. This is in line with the commitment made to me by the Polish government. However, this was amended in committee to add restrictive residency requirements for claimants, which we believe, are discriminatory and are the kind of limitation we are trying to avoid. We are emphasizing the importance of the final act reflecting the Polish government's position. We have raised this issue with visiting Polish officials here in Washington and our Embassy has raised it in Warsaw. In addition, I believe that Chairman Smith of the CSCE Commission sent a letter to the President of the Polish parliament. Polish officials have informed us that they strongly favor the draft submitted by the government and are opposed to the amendments.

The return of Jewish communal property in Poland has been slow because of the difficulty the WJRO and the Polish Jewish community have had in establishing a foundation to prepare claims and administer some of the returned property. Negotiations between the two groups broke down last year. To get the two parties back to the negotiating table, I asked Ambassador Henry Clarke to serve as a mediator to get them going again. The third of his mediation sessions is now underway in Warsaw. In addition, I met last week with the WJRO co-chairmen and urged them to give their negotiators the necessary flexibility to finish this important work. I am optimistic that the foundation will be up and running soon so that the restitution process can be accelerated.

Archives

Archival openness is essential, not only to assist in claims and advancing scholarship, but so that every country can honestly confront its behavior during these difficult years and draw the lessons needed to advance tolerance and social justice. It is important that the Russians open up their archives on Raul Wallenberg, that the Vatican allow research into its archives, and museums allow scholarly and provenance research into their collections. At a conference in Stockholm last month, attended by delegates from 46 nations, a declaration was agreed to calling for opening up archives containing information on the Nazi-World War II era. In addition, following my request to Count Lambsdorff, he has informed me that many of the companies involved in the German slave/forced labor initiative have agreed to open their archives to legitimate historical research from this era. Some have done so already. We are encouraging the broadest participation of German companies in this effort at openness.

Education and Remembrance

I had the distinct honor of leading the U.S. delegation to The Stockholm International Forum on the Holocaust, held January 26-28. The Stockholm Forum, appropriately the first major conference of the new millennium, was an outstanding success and built upon the previous Holocaust conferences held in London and Washington. Twenty heads of state and government and delegations from 46 countries attended. Only his prior commitment to deliver the State of Union address prevented the President from attending.

Delegates committed their countries to promoting holocaust education and remembrance, encouraging the study of the Holocaust in schools and universities, and in taking all necessary steps to open relevant archives. As embodied in the "Stockholm Declaration", these commitments, made by national political leaders, are unprecedented, and in the words of holocaust survivors with whom I spoke, "monumental" and "historic". Argentina, Bulgaria, Latvia, and Lithuania requested the International Holocaust Education Task Force to begin liaison projects on teaching the Holocaust with them, and, along with Ukraine, expressed interest in Task Force membership.

The concept of the Stockholm Forum was the personal initiative of Swedish Prime Minister Persson. In addition to the leadership and inspiration he gave to the Forum, he also demonstrated exceptional political leadership in exploring the historical truth of Sweden's wartime neutrality and in remembering the horrible crimes of the Holocaust era.

The work of the International Holocaust Education Task Force continues. It is translating the experience and expertise gained in teaching the Holocaust in countries that are members of the Task Force to other countries, to help them develop Holocaust education and remembrance in their societies. There has been a successful project in Czechoslovakia aimed at training in the teaching of the Holocaust, and similar projects have been requested by other countries.

To help support such activities, the Task Force last month established an endowment fund, to be administered by the Swedish Ministry of Foreign Affairs. Our government strongly supports this fund, and hopes to be able to announce a contribution in the near future.

In the same Stockholm Declaration of which I spoke, the participating nations committed their countries to promoting Holocaust education and remembrance, and encouraging the study of the Holocaust in their schools and universities.

Persecutee Fund

The December 1997 London Conference on Nazi Gold established the Nazi Persecutee Relief Fund to provide assistance to needy survivors of Nazi persecution. Seventeen countries have pledged $61 million. Congress appropriated $25 million over a three-year period. We allocated the first year's tranche of $4 million to the Conference on Jewish Material Claims Against Germany to provide support to survivors living in eastern and central Europe. We are now in the process of allocating the second tranche of $10 million. I am suggesting that half go to the German Foundation, $4.5 million to the Claims Conference and $500,000 to several Holocaust education and research projects.

Insurance

You will hear from former Secretary of State Lawrence S. Eagleburger on the progress of the International Commission on Holocaust Era Insurance Claims (ICHEIC). The U.S. Government has strongly supported this international effort to bring justice to victims of Nazi persecution and are pleased that the International Commission is expected to announce the launch of its full-scale claims and outreach program this month.

The ICHEIC claims process will use relaxed standards of proof in dealing with outstanding claims from the Holocaust era and will ensure the opening of companies' files, the cross-checking of names with Yad Vashem's records of Holocaust victims, and further research into European archives to find names of potential claimants. The International Commission has tested its claims procedures in a "fast-track" process for existing claims previously submitted to regulators cooperating with the Commission. Substantial progress has been made through this "fast-track" process and has resulted in the payment of a number of existing claims to Holocaust survivors and their heirs.

Recent focus has been on the cooperation of the ICHEIC with the German Foundation Initiative. Details of this important linkage are still being negotiated, but we expect that the German Foundation will recognize the International Commission as the exclusive mechanism for resolving insurance claims. As a result, all claims against German insurance companies brought to the Foundation will be processed under the International Commission's rules and procedures. In addition, the German Foundation will have a humanitarian insurance fund that shall be passed through to the International Commission, which shall have responsibility for administering such a fund.

In the most recent discussions of the International Commission's relationship with the German Foundation, representatives of both European insurance companies and Jewish organizations tabled proposals to pay outstanding Holocaust-era German insurance claims, to create a humanitarian fund for nationalized policies, heirless policies and policies against German companies no longer in existence, as well as for social purposes as determined by the ICHEIC. Further discussions to consider these proposals, as well as how to deal with the overall European insurance market, will take place this month.

The U.S. Government has supported the International Commission on Holocaust Era Insurance Claims since it began, and we believe it should be considered the exclusive remedy for resolving insurance claims from the World War II era. As stated in the MOU signed by the five ICHEIC member companies, those companies cooperating with the Commission deserve "safe haven" from sanctions, subpoenas, and hearings relative to the Holocaust period. I recently wrote to the state insurance commissioners in Washington and California, emphasizing my strong support for the international efforts to create a claims settlement process under the International Commission and stressing that, in their legitimate concern for Holocaust survivors, proposed actions in these states could undermine the work of the ICHEIC. Copies of these letters are available through the State Department's Office of Holocaust Issues.

We strongly encourage all insurers that issued policies during the Holocaust era -- including those in Germany, Austria, and the Netherlands, including Aegon -- to join the International Commission and participate in fully in its claims, outreach, and humanitarian programs. The ICHEIC is the best and most expeditious vehicle for resolving insurance claims from this period, and membership in the International Commission provides the only real way of both ensuring that valid claims are paid and resolving international moral and humanitarian responsibilities, i.e., for heirless and nationalized claims or companies no longer in existence.

Payments made by ICHEIC member companies to individual claimants, as well as their contributions to the humanitarian fund, need to be negotiated within the International Commission. These payments, if credited to the insurance companies, would avoid double payments by those who participate in the International Commission.

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DEPARTMENT OF THE TREASURY

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TREASURY SECRETARY LAWRENCE H. SUMMERS TESTIMONY BEFORE THE HOUSE COMMITTEE ON WAYS & MEANS

Mr. Chairman, Mr. Rangel, Members of the Committee, it is a pleasure to speak with you today about the President's FY 2001 budget. Let me start by thanking this Committee for your hard work in helping bring about the enviable position in which we now find ourselves.

At the outset of this Administration, the President established a three-pronged economic strategy based on strong fiscal discipline, investing in people, and engaging in the international economy. Partly as a consequence of that strategy we have achieved the first back-to-back unified budget surpluses in more than 40 years.

It is no coincidence that this month the US economy also achieved the longest expansion on record. This historic accomplishment is a tribute to the hard work and entrepreneurial qualities of our workers, businesses and farmers. But without the budget agreements of 1993 and 1997 between the President and Congress, the economic expansion would not have been as impressive or as enduring.

Last year's surplus of $124 billion was the largest in our history. Even using conservative assumptions, the budget will move still further into the black this year. By the end of September, we expect that Federal debt held by the public will be $2.4 trillion less than was projected for that date in 1992. This represents scarce national savings that have been freed up for private sector investment in the productive economy: in American businesses, workers and homes.

In 1992, the Federal budget posted a record deficit of $290 billion – almost 5 percent of our gross domestic product. Since then we have achieved not only a unified budget surplus – comprising both the operating budget and the Social Security budget – but also a small surplus in our on-budget account. In other words, for the first time since 1960, all of last year's Social Security surplus was used to improve the government's balance sheet.

This dramatic improvement in our fiscal situation reflects some hard choices. Federal spending has fallen below 19 percent of GDP, a sharp drop from the 22 percent level that prevailed when

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the Administration came into office. And we have reduced the Federal civilian payroll by more than one-sixth in that period, a reduction of 377,000 full-time equivalent employees.

As a result of this discipline, we are now in a position to eliminate the debt held by the public by 2013, on a net basis. Paying down the remaining $3.6 trillion of Federal debt will help to intensify the remarkably positive interaction that we hâve witnessed between the budget and the economy over the last several years, whereby what was once a vicious cycle of more debt, higher interest rates, a weaker economy and still more debt has been replaced with a virtuous circle of declining debt, lower interest rates, and a stronger economy, in turn producing still less debt, further downward pressure on interest rates, and stronger growth.

As a result, unemployment is at its lowest rate in 30 years, more than 20 million new jobs have been created, productivity growth has increased even this far into the expansion, home ownership rates are at an all-time high, and real wages are rising across the board including for those at the bottom of the income ladder.

At the same time, our fiscal position also provides us with a rare opportunity to focus on crucial national priorities. Let me set out the five basic objectives of this budget before discussing each item in turn.

- Reducing Federal debt to safeguard our economic expansion.
- Meeting the needs of an aging society by laying the foundations for the secure retirement of the baby boom generation.
- Providing new incentives through the tax system to strengthen our communities and encourage people to work and save more.
- Pursuing well-targeted initiatives that invest in health, education and other national priorities.
- Redoubling our commitment to opening markets and sustaining American leadership in order to bolster international economic opportunities for America and strengthen our national security in an uncertain world.

OVERVIEW OF THE FY2001 BUDGET

I. Safeguarding Our Economy by Reducing Federal Debt

For decades, Treasury's discussions with its Borrowing Advisory Committee centered on how we could finance growing budget deficits and whether the market would have the capacity to absorb the huge volumes of government debt that we needed to sell. In this new era of rising projected budget surpluses, our discussions now focus on how we can maintain liquidity in the market while reducing the volume of debt outstanding.

According to OMB and Treasury projections, this challenge will become even more apparent in the years ahead. Until now, debt reduction has been accomplished solely by retiring Treasury securities when they fall due. But from now on, we will have another tool available to help us manage the process of reducing the debt held by the public – namely, the ability to buy debt back from the public that has not yet matured. Using this tool, we can both reduce debt and bolster liquidity in our key "benchmark" issues. In the April to June quarter of this year, we expect that Treasury's net borrowing will result in a record pay down of $152 billion worth of bonds. This puts us on track to pay down more debt this year than in 1998 and 1999 combined.

As I have explained, under the President's proposals we will eliminate the debt held by the public by 2013 on a net basis. This will generate substantial further gains for the American economy. Reducing Federal debt functions like a tax cut in two respects. First, it removes the burden of interest and principal payments from the American taxpayer. Second, it maintains downward pressure on interest rates, and thereby helps reduce payments on home mortgages, car loans and other forms of consumer credit. We estimate that a 1-percentage point reduction in interest rates results in roughly a $250 billion reduction in mortgage interest expense over a decade.

Debt reduction also creates fiscal space, widening the range of choices available to us, and giving us greater capacity to respond to unforeseen problems. Today, the Federal Government is spending more than $200 billion a year on interest payments that would be eliminated under our proposals. The President proposes that resources not paid in interest be used to help ease the burden of the Social Security and Medicare costs that will arise once the baby-boom generation begins to retire.

II. Meeting the Needs of an Aging Society

As we create more fiscal space through continued fiscal discipline, we face a fundamental choice about how best to utilize that space. In this context, it is a vital objective of this budget to improve our ability to shoulder this country's obligations to its seniors.

Let me focus on two central elements: strengthening Social Security and modernizing Medicare.

1. Extending the solvency of Social Security to 2050 and beyond

It is a central tenet of our strategy that we will use all of the surpluses from Social Security to improve the government's net financial position. Compared to an alternative scenario, in which we merely balance the unified budget, the President's framework generates an increasing amount of savings on interest that would otherwise be paid to holders of the debt. Beginning in 2011, we propose to transfer these interest savings into the Social Security trust funds. These transfers would extend the solvency of the trust funds until 2050.

At the core of the President's proposal is a high level of fiscal discipline. In the Administration's framework, every dollar added to the trust funds is "backed" by a dollar's worth of pay down of the debt held by the public, and hence a dollar's worth of contribution to national savings.

These are serious steps, and constitute important preparation for the retirement of the baby boom generation.

In line with private sector practice, we also propose to invest a sensible and measured proportion of the trust funds in the equity market with the safeguard that such investment be limited to 15 percent of the value of the trust funds. This would further extend the solvency of the trust funds to 2054.

2. *Modernizing Medicare*

Since Medicare was launched 35 years ago, accessible and affordable health care has dramatically improved the lives of Americans over the age of 65. But there is now a very broad consensus that it is time to reform Medicare to meet the challenges of the new century.

By extending competition

The President put forward a detailed Medicare reform proposal last year, and he remains committed to enacting comprehensive reform in this Congress. A key element of this proposal is the move to full price and quality competition between traditional fee-for-service Medicare and managed-care plans.

By letting consumers realize most of the cost savings from choosing more efficient health plans, genuine competition will give all health plans a strong incentive to deliver the most value for money. At the same time, our proposal would ensure that seniors who move to lower-cost plans do so out of choice and not because of financial coercion. We look forward to working with the Members of this Committee to achieve these important objectives.

By providing coverage for prescription drugs

A second central element of Medicare reform is a voluntary prescription drug benefit that is affordable to all Medicare beneficiaries. Drug treatment has become an increasingly important part of modern health care, and no one would design a Medicare program today that excluded prescription drug coverage. Yet, roughly 3 out of 5 Medicare beneficiaries do not have dependable drug coverage today, and a majority of the uninsured have incomes greater than 150 percent of poverty. The Administration's proposal would provide a 50 percent subsidy for all seniors who choose to purchase the new Medicare drug benefit, with additional subsidies for lower-income seniors. The budget also includes a reserve fund of $35 billion for 2006 through 2010 to be used to design protections for beneficiaries with extremely high drug spending.

And by extending the solvency of Medicare

A third aspect of responsible Medicare reform is the addition of new resources into the Hospital Trust Fund. In the coming decades we expect to see a doubling in the number of Medicare beneficiaries, and continued advances in the ability of modern medicine to improve the length and quality of seniors' lives. We cannot meet the rising future demands on Medicare through our structural reforms alone. But by enacting the combination of reforms and transfers in the President's budget, the projected solvency of the Medicare program could be extended to 2025.

III. Using Tax Cuts to Strengthen Our Communities

The President's budget creates room for prudent and targeted tax cuts totaling $250 billion on a net basis over the next decade and $350 billion on a gross basis. These tax initiatives would advance a broad range of national priorities, including: reducing poverty and stimulating the creation of small businesses in our deprived communities; strengthening incentives to work and to save; and making it easier for families to care for chronically ill relatives. The proposals would also close unfair tax loopholes and eliminate tax shelters.

Let me highlight briefly some of the most important tax cut proposals in the President's budget.

Retirement Savings

Almost one in five elderly Americans has no income other than Social Security; two-thirds rely on Social Security for half or more of their income. Half of all working Americans have no pension coverage at all through their current job. It is very clear that steps need to be taken to help Americans take greater responsibility for their own financial security in retirement, and new incentives should be targeted to moderate and lower-income working families.

The President proposes to address this situation by creating a new, broad-based savings account, Retirement Savings Accounts. These accounts would give 76 million lower- and middle-income Americans the opportunity to build wealth and save for their retirement.

Under our plan, individuals could choose whether to participate, on a strictly voluntary basis, either through a retirement plan sponsored by their employer, or through a special stand-alone account at a financial institution. The employer or the financial institution would match each individual's contribution and then recover the cost of the match from the Federal government in the form of a tax credit.

Individuals could contribute up to $1,000 per year. Low-income individuals would qualify for a two-for-one match on the first $100 contributed, and a dollar-for-dollar match on additional contributions. Higher income participants could qualify for a 20-percent match, in addition to the tax incentives that apply to pension or IRA contributions. A person who participated in this savings program for his or her entire career could accumulate well over two hundred thousand dollars for his or her retirement.

In addition, the President proposes to make small employers eligible for new tax credits to help them set up or improve their retirement plans. Related proposals include measures to increase pension security and portability, and to improve disclosure to workers. Overall, the cost of these initiatives to expand retirement savings would total $77 billion over ten years.

Helping Working Families

The Earned Income Tax Credit has proved one of the most effective means of rewarding work and lifting people out of poverty. In 1998 alone, the EITC raised the income of 4.3 million working people above the poverty level. But many families still remain in poverty. The President proposes to help more families work their way out of poverty by increasing the Earned Income Tax Credit for the larger families that are most apt to be poor and relieving the marriage penalty under the EITC. The increases in the EITC would total $24 billion over the next ten years.

Under the budget plan we would also reduce the marriage tax penalty, strengthen work incentives, and cut taxes for the 70 percent of families who claim the standard deduction. To address the marriage penalty in a targeted way, the President proposes to make the standard deduction for two-earner married couples twice the standard deduction for singles. In 2005, when it is fully phased in, this proposal would raise the standard deduction for two-earner married couples by $2,150. Starting in 2005, the proposal would also simplify and reduce taxes for middle income taxpayers by increasing the standard deduction for single-earner married couples by $500 and for singles by $250. The proposal would make the child and dependent care tax credit refundable and raise the maximum credit rate to 50 percent.

Revitalizing our Communities.

By expanding the New Markets tax credit the budget would help spur $15 billion in new investment for businesses in inner cities and poor rural areas. The budget also proposes to extend and expand incentives for businesses to invest in empowerment zones.

Health

Last year the President proposed a tax credit that compensated families for the cost of looking after chronically ill relatives. But at $1,000, the credit was insufficient compensation for the rising burden that these families face. The President's FY2001 proposal triples the credit to $3,000. We also propose to provide tax credits for workers between jobs who purchase COBRA coverage from their old employers.

Education

The budget proposes to save taxpayers $30 billion over ten years through the College Opportunity Tax Cut. When fully phased in, this new tax incentive would give families the option of taking a tax deduction or claiming a 28 percent credit for up to $10,000 of higher education costs. This would provide up to $2,800 in tax relief to millions of families who are now struggling to afford the costs of post-secondary education. We also put forward a tax credit to help state and local governments build and renovate their schools.

Tax Simplification and Fairness

Although the Alternative Minimum Tax was originally intended to ensure that high-income taxpayers could not use tax breaks to avoid income tax altogether, we recognize that it is increasingly eating into the take-home pay of middle-income taxpayers, especially those with large families. We propose to redress this problem by allowing taxpayers to deduct all of their exemptions for dependents against AMT. By 2010 when it is fully phased-in, this change would halve the number of taxpayers affected by the AMT.

Corporate Shelters and Tax Havens

The proliferation of corporate tax shelters presents a growing and unacceptable level of abusive tax avoidance that reduces government receipts and consequently raises the tax burden on compliant taxpayers. Corporate tax shelters breed disrespect for the tax system – both by those who participate in the tax shelter market and by those who perceive unfairness. A perception that well-advised corporations can and do avoid their legal tax liabilities by engaging in these tax-engineered transactions may cause a "race to the bottom."

The President's FY 2001 Budget again contains a comprehensive approach to addressing this problem. This approach is 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 these tax-engineered transactions. The main elements of the legislation include: requirements aimed at substantially improving the disclosure of corporate tax shelter activities; provisions to raise the penalty where there is substantial understatement of tax owed; and the codification of the economic substance doctrine. Enactment of corporate tax shelter legislation, combined with the efforts of the restructured IRS, will go a long way towards deterring abusive transactions before they occur, and uncover and stop these transactions when they do take place.

Another area that raises similar concerns is the growing use of tax havens. These jurisdictions, through strict bank secrecy and other means, facilitate tax avoidance and evasion. Curbing this harmful tax competition should help businesses to compete on a level playing field and encourage investment growth and jobs. Our budget includes several provisions intended to reduce the attractiveness of tax havens and to increase access to information about activities in tax havens.

Other Provisions

There are a number of other important proposals that I would like to mention. These include: incentives to increase philanthropic donations; tax credits aimed at bridging the "digital divide" by encouraging investment in technology in deprived communities, and measures to help reduce pollution and emissions of greenhouse gases.

IV. Investing in Health, Education and Other National Priorities

The spending proposals in the President's budget are based on two fundamental principles.

The first principle is that we use realistic projections of the level of spending needed to maintain core government functions. To meet this requirement, we begin with a "current services" baseline under which discretionary spending is held constant on an inflation-adjusted basis.

Our budget policy would maintain defense spending at this baseline and reduce non-defense discretionary spending slightly below it, meaning that existing domestic programs would need to be trimmed by more than enough to finance new initiatives. In 1999, non-defense discretionary spending was a smaller share of GDP than at any point in at least 40 years; under our policy, it would represent a yet smaller share over the coming decade. Moreover, total outlays as a proportion of GDP would decline in 2001 and they would continue to decline on this basis for the rest of the decade.

The second fundamental principle of the President's spending proposals is to focus on critical national priorities, including health care, education, law enforcement, and technology. By focusing our initiatives in these and other key areas, we can meet people's needs in a fiscally disciplined way.

Let me briefly summarize our proposals in these four areas.

Health Care

The President has proposed a bold initiative to reverse the disturbing increase in the number of Americans without health insurance. Through the combination of targeted spending proposals and tax incentives, we can expand health coverage to millions of uninsured Americans.

A central part of this initiative is an expansion of the State Children's Health Insurance Program, known as S-CHIP, which was introduced two years ago with broad bipartisan support. In the FY2001 budget we would build on the success of this program by extending it to cover the *parents* of eligible children, most of whom are uninsured. Another important element of this initiative is providing a Medicare buy-in option for people close to the Medicare eligibility age. This year, to make this option more affordable, our budget includes a tax credit to offset some of the premium.

Education

Education is another key priority in the President's budget, as has been true since the beginning of this Administration. For next year we are proposing an additional $1 billion for the Head Start program and almost $150 million for Early Head Start, which would put us within reach of serving one million children by 2002. We are also proposing sufficient funding to take us almost halfway to the President's goal of hiring 100,000 new teachers in order to reduce class sizes.

Law Enforcement

Turning to law enforcement, the budget includes significant new resources to enforce our nation's gun laws. Last Friday we released a report from the Bureau of Alcohol, Tobacco and Firearms showing that 1 percent of gun dealers account for well over half of all crime guns traced last year. The information from gun tracing will help us target our enforcement efforts, but we also need more agents and inspectors at the ATF and more prosecutors – and our budget will provide them.

At the same time we are requesting funds that would pay for recruiting and training of 50,000 new police officers, and funds that would strengthen the National Money Laundering Strategy. Money laundering is a growing international problem, and we need this budget allocation to strengthen U.S. leadership in fighting this problem.

Technology and the Environment

Another important national priority must be investment in the science and technology that will spur economic growth and improve people's lives in the 21st century. The President's budget includes a nearly $3 billion increase in crucial investments, including a $1 billion increase in funding for biomedical research for the National Institutes of Health and a rise in funding for the National Science Foundation that is double the previous largest increase. These investments will enable Americans to continue to lead the world in many areas of science and technology, including biomedical research, nano-technology, and clean energy.

The budget also contains $42 billion for high-priority environmental and natural resource programs, an increase of $4 billion over last year's enacted level. This includes $1.4 billion in discretionary funding for the Land's Legacy initiative to expand and protect our open spaces, an additional $1.3 billion to support farm conservation, and an additional $770 million to help combat global climate change.

V. American Leadership in the World

As we enter this new century, it is crucial that we continue to learn the lessons of the last one by working to build an ever-widening circle of more prosperous and more open international economies. This enables us to enjoy the benefits of peace and the spread of our core values. And we benefit more directly in the millions of high-paying jobs that exports create and the competition and innovation that openness to imports can promote. In short, globalization is not a zero sum game but a "win-win proposition" for America and its trading partners.

Let me outline several areas where we can strengthen this process while also enhancing our national security.

China

One of the President's top priorities this year is to seek Congressional approval for the agreement we negotiated to bring China into the World Trade Organization, by passing Permanent Normal Trading Relations with China as soon as possible. I firmly believe that China's entry into the WTO, under the terms of the trade agreement that we reached last November, is in our economic and national security interest.

- First, this is a good deal for American workers, farmers and businesses since the concessions all run one way, in our favor.

- Second, by integrating China into the rules-based world trading system, we will help promote reform within China and reduce the security threat that an isolated China can pose to America and the rest of the world.

Mr. Chairman, we will need your support to prevail, and look forward to working with you on this issue in the weeks and months ahead. We also look forward to working with you to implement the Caribbean Basin, African Trade, and Balkans Trade Initiatives.

Multilateral Development Banks

Obtaining adequate funding for U.S. participation in the MDBs remains a Treasury priority. 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. These programs are the most effective tools we have for investing in the markets of tomorrow. This budget's request for $1.35 billion is $40 million less than we requested last year, yet it would fully cover our annual obligations to the MDBs as well as paying down some of our arrears to a global system that we were instrumental in creating.

Highly Indebted Poor Countries Initiative

I would like to thank Congress for your efforts in the FY2000 budget to provide broader, deeper and faster debt relief to the world's poorest and most heavily indebted nations. As a result, progress has been made. 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 open up their economies.

The President is asking for an additional $210 million this year and $600 million over the next three years to support multilateral and bilateral debt relief for countries under the Highly Indebted Poor Countries initiative. In doing so he is asking Congress to finish the enormously important work we began last fall.

Vaccines

The budget also contains requests that would help fulfill the President's Millennium Initiative for vaccines. By allocating $50 million to the Global Alliance for Vaccines and Immunization, we could save many children's lives and at the same time help protect the health of American citizens. The President has also proposed a new tax credit that would help stimulate development of vaccines for malaria, HIV-AIDS and tuberculosis.

VI. Concluding Remarks

I began my remarks today by focusing on the link between fiscal discipline and the performance of our economy over the last seven years. Having worked hard to help bring us to the remarkable economic moment that we are now enjoying, the Members of this Committee know well the value to our economy and our country of further paying down the national debt held by the public. If we can act to reduce the debts we bequeath to our children, while continuing to fund our obligations to seniors and pursuing the vital purpose of making the economy work for all our people and communities, then we can maximize the extraordinary opportunities with which we are now presented. I look forward to working together with this Committee and others in Congress to turn these high-class challenges into even higher-class solutions. Thank you. I would now be happy to respond to any questions that you might have.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR IMMEDIATE RELEASE
February 9, 2000

STATEMENT BY TREASURY DEPUTY SECRETARY STUART E. EIZENSTAT

The entry of the far-right Freedom Party into a coalition government with one of Austria's mainstream parties, the conservative People's Party, has caused great concern both here and in Europe. The fact that statements of leaders of the Freedom Party have in the past failed to condemn intolerance and extremism, and attempted to explain away the Holocaust, understandably creates great concern. However, in the preamble to the coalition agreement, signed by both parties, the new Austrian government has promised to uphold tolerance and human rights and to condemn discrimination.

Our friends and we will be watching Austria closely to ensure that the government lives up to the preamble of the coalition agreement. In doing so, we will look at what the new government does, as well as what it says. One important benchmark in this regard is how the new government will deal with unresolved Holocaust issues.

In this regard, I am pleased to report two positive developments:

First, Austrian Chancellor Schuessel announced today that, in light of an interim report of the Austrian Historians Commission, he plans to seek prompt compensation for former forced laborers. In addition, he announced the appointment of the former head of the Austrian central bank, Maria Schaumayer, as the head of a new office that will address forced and slave labor compensation.

Second, our first discussions with Austrian officials in the last few days on proposals to address Holocaust issues were very positive.

Secretary Albright and our Ambassador in Vienna discussed our concerns with the new government, and I have already had discussions with Austrian leaders and officials on this matter. In Washington on February 7, I met with Ambassador Moser, Austria's Ambassador here. During our meeting, we had an extensive conference call

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with a senior Foreign Ministry official in Vienna. We discussed the new government's commitments to tolerance and to addressing the difficult and painful questions about Austria's Nazi past.

I am pleased to report that my discussions have been very reassuring. Austrian officials have since transmitted to me a position paper that provides a road map for addressing Holocaust-related issues over the next several months. Let me cite the provisions of this paper, and I hope you will allow this document to be submitted into the record of this hearing.

Austrian Commitments on Holocaust-Related Issues

- The Austrian Government will support open access to archives in federal agencies and advocate a similar policy among non-governmental entities.

- Austria's Historians Commission will continue to submit interim reports on all aspects of Holocaust related issues. In this regard, the Government has taken note of the interest of survivor organizations for the adoption of interim measures, which would benefit aging victims, particularly those who live in difficult financial circumstances.

- The Austrian Government will encourage Austrian insurance companies to participate in the work of the International Commission on Holocaust Era Insurance Claims, chaired by former Secretary of State Lawrence Eagleburger. In this regard, the Austrian Government looks forward to the results of the research effort that Austrian insurance companies are conducting into complex historical and legal questions.

- The Austrian authorities will seek to improve the practical application of the 1998 Art Restitution Law, and encourage similar restitution steps among local and regional governmental bodies.

- Finally, the position paper refers to the Chancellor's commitment regarding forced labor compensation and the appointment of a special representative to lead the Austrian team in the talks and negotiations with the other parties.

Thus, the commitments outlined in the position paper constitute a good basis for the new government to address Holocaust-related issues and confront its Nazi past. I plan to have a follow-up discussion with Austrian officials very shortly, and I will work closely with the Austrian government and survivor groups on this critical issue.

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TREASURY SECRETARY SUMMERS
SENATE COMMITTEE ON AGRICULTURE, NUTRITION AND FORESTRY

Mr. Chairman, Senator Harkin, Members of this Committee, thank you for giving me the opportunity to discuss the report of the President's Working Group on Financial Markets on *Over-the-Counter Derivatives Markets and the Commodity Exchange Act*. The issues covered in the report have been a focus of this Committee, and on behalf of the members of the Working Group, we thank you for the leadership you have demonstrated on these important issues.

The over-the-counter derivatives market is an important component of the American capital markets and a powerful symbol of the kind of innovation and technology that has made the American financial system as strong as it is today. Yet the continued development of this market will depend a great deal on the development of a clear and effective regulatory environment.

The report of the President's Working Group contains the unanimous recommendations of a group that included, among others, the Chairmen of the Federal Reserve, the Commodity Futures Trading Commission and the Securities and Exchange Commission. It recommends the enactment of legislation to reform the legal framework affecting the OTC derivatives market. Taken together, these changes would provide legal certainty, contribute to the reduction of systemic risk, protect retail customers, stimulate the competitiveness of America's financial markets, and thereby help to create jobs and lower costs for American consumers and businesses.

Let me divide my remarks into three parts:

- First, the growing importance of OTC derivatives in the US economy.

- Second the objectives that guided Members of the Working Group when deciding on its recommendations and the importance of enacting those recommendations within the shortest reasonable time frame.

- Third, the six recommendations that the Working Group has produced.

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I. The Role of OTC Derivatives in the US Economy.

Mr. Chairman, the financial sector is the central nervous system of the American economy. As our economy and our financial markets have evolved over the past two decades, so too have the needs of the financial sector. Most notably, in an era of globalization, volatility of interest rates, increased securitization and the growth of the bond markets relative to the traditional loan markets, businesses and financial institutions have needed more and better tools for managing risk.

In that sense, the over-the-counter derivatives market has grown directly in response to the needs of the private sector. An OTC derivative is an instrument that allows a party seeking to reduce its risk exposure to transfer that exposure to a counterparty that wants and may be in a better position to assume the risk. This is a potent development that has significantly enhanced the ability of businesses to manage their risk profiles, to compete more effectively in the global marketplace, and to deliver more efficiently and at lower cost a wide range of services and products to the American consumer.

Because of these rising demands, the notional value of global OTC derivatives has risen more than five-fold over the past decade, to more than $80 trillion according to estimates produced by the Bank for International Settlements.

Operating within a proper and appropriate framework of legal certainty, the benefits to the American economy of OTC derivatives would continue to grow. For example:

- By helping businesses and financial institutions to hedge their risks more efficiently, OTC derivatives enable them to pass on the benefits of lower product costs to American consumers and businesses.

- By allowing for the transfer of unwanted risk, OTC derivatives promote the more efficient allocation of capital across the economy, further increasing American productivity.

- By providing better pricing information, OTC derivatives can help promote greater efficiency and liquidity of the underlying cash markets that feeds into a stronger economy for all Americans.

- And, by enabling more sophisticated management of assets, including mortgages, consumer loans and corporate debt, OTC derivatives can help lower mortgage payments, insurance premiums, and other financing costs for American consumers and businesses.

Thus, OTC derivatives have the potential to bring important benefits to our economy. The goal of the recommendations of the President's Working Group is to ensure that these benefits can be realized. At the same time, we need to recall that the emergence of the OTC derivatives market has come during an era of unprecedented economic strength and prosperity.

It is to be expected that in times of distress some participants in this market, as in other financial markets, will be adversely affected. What needs to be protected are not individual institutions, but the system as a whole. The challenge is to strike the appropriate balance between the creation of a regulatory regime of legal certainty that allows the economy to realize the benefits of OTC derivatives while still providing appropriate protection for retail customers and the system. In our judgement, the best protection against systemic risk is market discipline.

Now let me turn to the more specific goals of the Working Group in producing the report.

II. Objectives of the Working Group's Report

Mr. Chairman, the members the President's Working Group believe that a strengthened OTC derivatives market can contribute to the greater efficiency of the US economy. They further believe that a failure to act in this area would risk a situation in which the existing legal framework for our financial markets would seriously lag the development of the markets themselves.

In the absence of an updated legal and regulatory environment, needless systemic risk might jeopardize the broader vitality of the American capital markets; innovation might be stifled by the absence of legal certainty; and American consumers might be deprived of the benefits that a more appropriate legal framework would deliver. We also risk an erosion of the competitiveness of American financial markets, with an increasing amount of business moving offshore to jurisdictions where the regulatory framework has kept up with the pace of change.

It was with these priorities in mind, Mr. Chairman, that last year you requested the Working Group to study the OTC derivatives market and recommend what changes were required. The Working Group worked on the assumption that legislative action would be required within a timeframe appropriate to the growing importance of the OTC derivatives market – and taking into account this market's potential contribution to the efficient functioning of the American financial sector and to that of the economy as a whole.

Accordingly, the Working Group sought to achieve four objectives:

- **To reduce systemic risk** in the OTC derivatives market by removing legal impediments to the development of clearing systems and ensuring that those systems are appropriately regulated.

- **To promote innovation** in the OTC derivatives market by providing legal certainty for OTC derivatives and electronic trading systems. This would strengthen the overall legal framework governing the OTC derivatives market that, in turn, would stimulate greater competition, transparency, liquidity, and efficiency and deliver stronger benefits to US consumers and businesses.

- **To protect retail customers** by ensuring that appropriate regulations are in place to deter unfair practices in all markets in which they participate and by closing existing legal loopholes that allow unregulated entities to pursue such unfair practices.

- **To maintain US competitiveness** by providing a modernized framework that will lead those engaged in the financial services industry to continue the operations of their businesses in the United States, and thereby assuring the continued leadership of American capital markets.

III. The Recommendations of the President's Working Group.

Before outlining the Working Group's recommendations in greater detail, it bears emphasis that the Working Group did not reach its conclusions lightly. In view of the technical nature and history of many of the issues considered, the unanimous nature of our recommendations is very significant. It is our firm belief that the situation calls for legislation at the soonest appropriate opportunity. I will now turn to the recommendations.

1. Create an exclusion from the CEA for most swaps agreements.

The Working Group is recommending that an exclusion for certain swaps between eligible counterparties be codified by Congress in the Commodities Exchange Act. This exclusion would be similar to the CFTC's 1993 rule exempting swaps. It would not, however, extend to agreements involving non-financial commodities with finite supplies that could potentially be subject to manipulation, such as agricultural commodities. The CFTC would retain exemptive authority for these types of swaps including swaps related to agricultural commodities. The exclusion would cover equity swaps, a category of swaps where there is also some amount of legal uncertainty.

Mr. Chairman, this recommendation would provide legal certainty by excluding interest rate and equity swap agreements from the scope of the CEA, and remove doubts about the enforceability of these contracts in the courts. It is clear to the Working Group that this exclusion is the best approach to assure that the OTC derivatives market can develop within the kind of innovative and legally stable environment on which the continued competitiveness of our financial markets will depend. The exclusion would also contribute to the permanent clarification of the status of OTC derivatives that is essential for the integrity of the market.

The current legal uncertainty concerning whether swaps are subject to the CEA has its roots in the 1974 legislation that created the CFTC. That legislation significantly increased the scope of the CEA by broadening the definition of what constitutes a "commodity" As a result, most interest rates, for example, are now considered a "commodity" under the CEA and exchange-traded interest rate futures are thus regulated by the CFTC. We do not believe that off-exchange transactions that are tied to interest rates are themselves futures contracts and therefore should not be subject to CFTC regulation. To some market participants, however there has been uncertainty on this critical question.

The Working Group members perceive no compelling evidence of problems involving the swaps that we are recommending for exclusion that would warrant regulation under the CEA. Rather, we believe that an exclusion is appropriate because the participants in such transactions are generally capable of making informed investment decisions and do not require the additional protections of the CEA. We further believe that the legal certainty provided by statute will be more durable and reliable than that provided by regulations, which are more easily changed.

The CEA is designed primarily to address issues of fraud, manipulation, and price discovery. Sophisticated participants can protect themselves against fraud or can seek legal redress if they are defrauded. There is little evidence to suggest that markets for financial OTC derivatives are readily susceptible to manipulation. And, in the case of derivatives based on securities, existing securities laws would in any event be applicable to any attempts to manipulate security prices. In addition, financial OTC derivatives do not yet serve a primary price discovery function. And the activities of most OTC derivative dealers are already subject to direct or indirect federal oversight.

2. Create an Exclusion for Electronic Trading Systems.

This recommendation would create an exclusion from the CEA for electronic trading systems that limit participation to sophisticated parties trading for their own accounts. Again, the exclusion would not apply to trading systems involving non-financial commodities with a finite supply such as agricultural commodities.

By confining the exclusion to trading systems involving only qualified participants, this recommendation is designed to protect retail customers without unnecessarily obstructing innovation where regulation is not justified. Electronic trading systems promote transparency and efficiency and thus reduce the cost of trading interest rate and other types of swap contracts. In that sense the exclusion would strengthen the competitiveness of the American OTC derivatives market.

At the same time, while agreeing that an exclusion from the CEA is appropriate, the Working Group has undertaken to monitor the development of electronic trading systems for OTC derivatives going forward, with a view to evaluating whether limited regulation of these systems to enhance market transparency and price discovery should become appropriate at a later date.

3. Permit the Use of Appropriately Regulated Clearing Systems for OTC derivatives.

The third recommendation of the report would permit the creation of clearing systems for OTC derivatives while requiring that such systems be subject to appropriate regulation. This proposal is designed to reduce systemic risk by encouraging the creation of appropriately regulated clearing systems for OTC derivatives.

Well-designed clearinghouses can contribute significantly to reducing systemic risk: first, by diminishing the likelihood that the failure of a single market participant can have a disproportionate effect on the market as a whole; and second, by facilitating the offsetting and netting of contract obligations. A reduction in systemic risk would in turn enhance the stability of our financial system and increase its competitive edge. Nonetheless, in view of the concentration of risk within these entities, the Working Group believes that regulation of such clearing systems is appropriate.

4. Clarify the Original Intent of the Treasury Amendment

This recommendation would clarify the Treasury Amendment in two ways. First it would enable the CFTC to address the problems associated with foreign currency "bucket shops" by codifying the CFTC's authority to regulate such entities and to prosecute such entities when they attempt to defraud retail customers. This would support the CFTC's objective of regulating entities that allegedly defraud retail customers, thus strengthening protection for small investors.

Second, the recommendation would preserve CFTC authority over Treasury Amendment transactions on "organized exchanges" while excluding most other transactions in Treasury Amendment products from the scope of the CEA.

The Treasury Amendment was originally designed primarily to exclude trading of OTC derivatives tied to underlying government securities and foreign exchange from the regulatory scope of the CEA. The exclusion, as currently worded, applies to all such contracts unless the transaction involved the sale of futures on a "board of trade." But uncertainty persists about the precise meaning of what constitutes a "board of trade" and whether it could be interpreted to encompass entities such as investment and commercial banks.

As a result, the Working Group recommends that the term "board of trade" be replaced by the phrase "organized exchange" to provide legal certainty for OTC instruments excluded under the Treasury Amendment and that an appropriate statutory definition of "organized exchange" is provided.

5 & 6. Clarify the Exempt Status of Hybrid Instruments.

The final two recommendations are highly technical in nature and designed to enhance legal certainty by clarifying that hybrid instruments that reference securities can be exempted from the CEA. The recommendations also resolve potential jurisdictional disputes between the CFTC and other regulators with respect to such instruments by limiting the exclusive jurisdiction clause of the CEA.

IV. Conclusion.

Mr. Chairman, the President's Working Group has presented the Congress with a set of unanimous recommendations pertaining to the growing and increasingly important market for OTC derivatives in the United States. We believe that these recommendations, taken together, would reduce systemic risk, promote innovation, competition, efficiency and transparency in our financial markets; would protect retail customers, and would maintain American leadership in OTC derivatives markets.

In this context, we believe that legislation is necessary. We suggest a paradigm for that legislation that recognizes that with the appropriate legal framework, the OTC derivatives market can make a valuable contribution to the efficient functioning of the American capital markets, with benefits for businesses and consumers. Under the existing regulatory framework, as the report makes clear, there is a risk that these benefits will not be realized.

The Working Group's report focuses on OTC derivatives. There are also important issues of regulatory relief on exchange-traded derivatives. The Working Group supports the CFTC's ongoing efforts to explore regulatory relief in this area. I look forward to working with them and other members of the Working Group to assure that our markets remain the most competitive and innovative in the world, while assuring the integrity of these markets is protected for all participants. Thank you. I would now welcome any questions that you may have.

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FOR IMMEDIATE RELEASE
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Contact: Jon Murchinson
(202) 622-2960

RUBIN APPOINTS ADVISORY COMMISSION ON FINANCIAL SERVICES

Treasury Secretary Robert E. Rubin , Wednesday, appointed 13 members of the Treasury Department's Advisory Commission on Financial Services, which will advise him during the course of a study of the American financial system.

The Interstate Banking and Branching Efficiency Act of 1994, which was signed into law by President Clinton at the Treasury Department, directs the Secretary of the Treasury to conduct a study of the American financial services system. The Secretary was charged by the Act with appointing a commission to consult with during the course of the study. The commission consists of a broad representation of providers of and users of financial services. Secretary Rubin will convene the commission's first meeting on July 31, 1995.

"Treasury's examination of the American financial system will make a valuable contribution in order to ensure that the system will continue to meet the needs of its users into the next century," Secretary Rubin said. "The Advisory Commission on Financial Services will play an important role in helping to frame the major policy challenges in the financial marketplace over the next ten years."

The Treasury study will examine the strengths and weaknesses of the U.S. financial system in meeting the needs of the system's users. A final report and recommendations are due to Congress by December 29, 1995. The report will set forth a broad vision for the future of financial services and will focus on the needs of the users of those services.

A list of the commission members is attached.

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RR-386

Department of the Treasury
Advisory Commission on Financial Services

Stephen J. Brobeck, Executive Director, Consumer Federation of America

John G. Heimann, Global Financial Institutions Group Chairman, Merrill Lynch & Co.

Beth Hodges, Executive Vice President, First National Bank of Panhandle, Texas

Mary Agnes Houghton, President, ShoreBank Corporation

Glenn H. Hutchins, General Partner, Blackstone Group

Orin S. Kramer, General Partner, Kramer Spelman, L.P.

Donald A. Moore Jr., Managing Director, Morgan Stanley & Co.

Clyde W. Ostler, Vice Chairman, Wells Fargo Bank

Robert C. Pozen, General Counsel and Managing Director, Fidelity Investments

Franklin D. Raines, Vice Chairman, Federal National Mortgage Association

Rachel F. Robbins, Managing Director and Deputy General Counsel, J.P. Morgan & Co.

Arthur F. Ryan, Chairman and CEO, The Prudential Insurance Company of America

John F. Sandner, Chairman of the Board, Chicago Mercantile Exchange

June 21, 1995

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

EMBARGOED UNTIL 2:30 P.M.
February 10, 2000

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 $17,363 million of publicly held securities maturing February 17, 2000, and to pay down about $363 million.

In addition to the public holdings, Federal Reserve Banks for their own accounts hold $8,232 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 $2,594 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 $968 million into the 13-week bill and $746 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

-387

HIGHLIGHTS OF TREASURY OFFERINGS OF BILLS
TO BE ISSUED FEBRUARY 17, 2000

February 10, 2000

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 DW 8	912795 EE 7
Auction date	February 14, 2000	February 14, 2000
Issue date	February 17, 2000	February 17, 2000
Maturity date	May 18, 2000	August 17, 2000
Original issue date	November 18, 1999	August 19, 1999
Currently outstanding	$11,962 million	$15,048 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.

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

ɿ IMMEDIATE RELEASE
ɔruary 10, 2000

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 30-1/4-YEAR BONDS

:erest Rate:	6 1/4%	Issue Date:	February 15, 2000
:ies:		Dated Date:	November 15, 1999
;IP No:	912810FM5	Maturity Date:	May 15, 2030
ɿIPS Minimum:	$32,000		

High Yield: 6.340% Price: 98.771

All noncompetitive and successful competitive bidders were awarded :urities at the high yield. Tenders at the high yield were .otted 51%. All tenders at lower yields were accepted in full.

Accrued interest of $ 15.79670 per $1,000 must be paid for the period ɔm November 15, 1999 to February 15, 2000.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 13,223,205	$ 9,967,720
Noncompetitive	33,519	33,519
PUBLIC SUBTOTAL	13,256,724	10,001,239 1/
Federal Reserve	1,170,000	1,170,000
Foreign Official Inst.	100,000	100,000
TOTAL	$ 14,526,724	$ 11,271,239

Median yield 6.207%: 50% of the amount of accepted competitive tenders ; tendered at or below that rate. Low yield 6.100%: 5% of the amount accepted competitive tenders was tendered at or below that rate.

ɨ-to-Cover Ratio = 13,256,724 / 10,001,239 = 1.33

Awards to TREASURY DIRECT = $23,592,000

3-388

NATIONAL CHURCH ARSON TASK FORCE

P. O. Box 65798
Washington, D.C. 20530

FOR IMMEDIATE RELEASE
THURSDAY, FEBRUARY 10, 2000

CR
DOJ CONTACT (202) 353-8584
TREASURY CONTACT (202) 622-2960

NATIONAL CHURCH ARSON TASK FORCE ISSUES THIRD REPORT
Arsons at Houses of Worship Continues to Decline

WASHINGTON, D.C. — The National Church Arson Task Force issued its third report to the President today, highlighting statistics that indicate the number of arsons at houses of worship continues to decline. Task Force officials contribute their success, in part, to continued vigilance, well-publicized arrests and ongoing prevention efforts.

The Task Force's arrest rate of 35 percent continues to be more than twice the national average for arson cases and 287 defendants have been convicted in connection with 206 arsons or bombings.

"I applaud the Task Force's diligent efforts of the past three years, which have resulted in the continued decline of arsons at our nation's houses of worship," said Treasury Deputy Secretary Stuart Eizenstat. "The hard work of ATF, the FBI, federal prosecutors and state and local law enforcement authorities, in conjunction with HUD and FEMA, have led to the NCATF's success in arresting and prosecuting the arsonists, rebuilding burned houses of worship and preventing additional fires."

"Vigorous law enforcement efforts, increased coordination among federal, state and local agencies and the vigilance of the faith community have laid the groundwork for tremendous progress," said James E. Johnson, Undersecretary of the Treasury for Enforcement and co-chair of the Task Force. "This coordinated approach has been vital to our success and to the continued decline of church arsons. We remain committed and will continue to aggressively investigate and prosecute those responsible for these horrific crimes."

"While these types of cases are often times difficult to investigate and prosecute, our cooperative efforts have brought tremendous success," said Bill Lann Lee, Acting Assistant Attorney General and co-chair of the Task Force. "The number of fires at houses of worship continues to decline, but even one burned church is too many -- we will not let up our efforts."

The Task Force's accomplishments include:

- opening 827 investigations into arsons, bombings, or attempted bombings that have occurred at houses of worship between January 1995 and October 1999, resulting in the arrest of 364 suspects in connection with 294 of these investigations;

- a 35 percent arrest rate in Task Force arson cases — more than double the 16 percent rate of arsons in general;

- convictions by federal, state and local prosecutors of 287 defendants in connection with 206 arsons or bombings at houses of worship between January 1995 and October 1999.

The Task Force also reported on recent indictments against Jay Scott Ballinger, who is suspected of starting fires at 29 churches in eight states. The indictments against Ballinger represent the largest number of fires linked to a single defendant since the Task Force was created.

The Task Force continues to work with U.S. Attorney's offices, ATF, the FBI and state and local authorities to investigate and prosecute arsons at houses of worship. The Department of Housing and Urban Development and the Federal Emergency Management Agency also continue to assist communities affected by these fires by providing rebuilding assistance and fire prevention information.

The Third Year Report is available on the internet 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 10:00 AM EST
Text as Prepared for Delivery
February 8, 2000

TREASURY SECRETARY LAWRENCE H. SUMMERS
TESTIMONY BEFORE THE SENATE FINANCE COMMITTEE

Mr. Chairman, Senator Moynihan, Members of the Committee, it is a pleasure to speak with you today about the President's FY 2001 budget. Let me start by thanking this Committee for your hard work in helping bring about the enviable position in which we now find ourselves.

At the outset of this Administration, the President established a three-pronged economic strategy based on strong fiscal discipline, investing in people, and engaging in the international economy. Partly as a consequence of that strategy we have achieved the first back-to-back unified budget surpluses in more than 40 years.

It is no coincidence that this month the US economy also achieved the longest expansion on record. This historic accomplishment is a tribute to the hard work and entrepreneurial qualities of our workers, businesses and farmers. But without the budget agreements of 1993 and 1997 between the President and Congress, the economic expansion would not have been as impressive or as enduring.

Last year's surplus of $124 billion was the largest in our history. Even using conservative assumptions, the budget will move still further into the black this year. By the end of September, we expect that Federal debt held by the public will be $2.4 trillion less than was projected for that date in 1992. This represents scarce national savings that have been freed up for private sector investment in the productive economy: in American businesses, workers and homes.

In 1992, the Federal budget posted a record deficit of $290 billion - almost 5 percent of our gross domestic product. Since then we have achieved not only a unified budget surplus – comprising both the operating budget and the Social Security budget – but also a small surplus in our on-budget account. In other words, for the first time since 1960, all of last year's Social Security surplus was used to improve the government's balance sheet.

This dramatic improvement in our fiscal situation reflects some hard choices. Federal spending has fallen below 19 percent of GDP, a sharp drop from the 22 percent level that prevailed when the Administration came into office. And we have reduced the Federal civilian payroll by more than one-sixth in that period, a reduction of 377,000 full-time equivalent employees.

LS-390

As a result of this discipline, we are now in a position to eliminate the debt held by the public by 2013, on a net basis. Paying down the remaining $3.6 trillion of Federal debt will help to intensify the remarkably positive interaction that we have witnessed between the budget and the economy over the last several years, whereby what was once a vicious cycle of more debt, higher interest rates, a weaker economy and still more debt has been replaced with a virtuous circle of declining debt, lower interest rates, and a stronger economy, in turn producing still less debt, further downward pressure on interest rates, and stronger growth.

As a result, unemployment is at its lowest rate in 30 years, more than 20 million new jobs have been created, productivity growth has increased even this far into the expansion, home ownership rates are at an all-time high, and real wages are rising across the board including for those at the bottom of the income ladder.

At the same time, our fiscal position also provides us with a rare opportunity to focus on crucial national priorities. Let me set out the five basic objectives of this budget before discussing each item in turn.

- Reducing Federal debt to safeguard our economic expansion.

- Meeting the needs of an aging society by laying the foundations for the secure retirement of the baby boom generation.

- Providing new incentives through the tax system to strengthen our communities and encourage people to work and save more.

- Pursuing well-targeted initiatives that invest in health, education and other national priorities.

- Redoubling our commitment to opening markets and sustaining American leadership in order to bolster international economic opportunities for America and strengthen our national security in an uncertain world.

OVERVIEW OF THE FY2001 BUDGET

I. Safeguarding Our Economy by Reducing Federal Debt

For decades, Treasury's discussions with its Borrowing Advisory Committee centered on how we could finance growing budget deficits and whether the market would have the capacity to absorb the huge volumes of government debt that we needed to sell. In this new era of rising projected budget surpluses, our discussions now focus on how we can maintain liquidity in the market while reducing the volume of debt outstanding.

According to OMB and Treasury projections, this challenge will become even more apparent in the years ahead. Until now, debt reduction has been accomplished solely by retiring Treasury securities when they fall due. But from now on, we will have another tool available to help us manage the process of reducing the debt held by the public – namely, the ability to buy debt back from the public that has not yet matured. Using this tool, we can both reduce debt and bolster liquidity in our key "benchmark" issues. In the April to June quarter of this year, we expect that Treasury's net borrowing will result in a record pay down of $152 billion worth of bonds. This puts us on track to pay down more debt this year than in 1998 and 1999 combined.

As I have explained, under the President's proposals we will eliminate the debt held by the public by 2013 on a net basis. This will generate substantial further gains for the American economy. Reducing Federal debt functions like a tax cut in two respects. First, it removes the burden of interest and principal payments from the American taxpayer. Second, it maintains downward pressure on interest rates, and thereby helps reduce payments on home mortgages, car loans and other forms of consumer credit. We estimate that a 1-percentage point reduction in interest rates results in roughly a $250 billion reduction in mortgage interest expense over a decade.

Debt reduction also creates fiscal space, widening the range of choices available to us, and giving us greater capacity to respond to unforeseen problems. Today, the Federal Government is spending more than $200 billion a year on interest payments that would be eliminated under our proposals. The President proposes that resources not paid in interest be used to help ease the burden of the Social Security and Medicare costs that will arise once the baby-boom generation begins to retire.

II. Meeting the Needs of an Aging Society

As we create more fiscal space through continued fiscal discipline, we face a fundamental choice about how best to utilize that space. In this context, it is a vital objective of this budget to improve our ability to shoulder this country's obligations to its seniors.

Let me focus on two central elements: strengthening Social Security and modernizing Medicare.

1. Extending the solvency of Social Security to 2050 and beyond

It is a central tenet of our strategy that we will use all of the surpluses from Social Security to improve the government's net financial position. Compared to an alternative scenario, in which we merely balance the unified budget, the President's framework generates an increasing amount of savings on interest that would otherwise be paid to holders of the debt. Beginning in 2011, we propose to transfer these interest savings into the Social Security trust funds. These transfers would extend the solvency of the trust funds until 2050.

At the core of the President's proposal is a high level of fiscal discipline. In the Administration's framework, every dollar added to the trust funds is "backed" by a dollar's worth of pay down of the debt held by the public, and hence a dollar's worth of contribution to national savings. These are serious steps, and constitute important preparation for the retirement of the baby boom generation.

In line with private sector practice, we also propose to invest a sensible and measured proportion of the trust funds in the equity market with the safeguard that such investment be limited to 15 percent of the value of the trust funds. This would further extend the solvency of the trust funds to 2054.

2. *Modernizing Medicare*

Since Medicare was launched 35 years ago, accessible and affordable health care has dramatically improved the lives of Americans over the age of 65. But there is now a very broad consensus that it is time to reform Medicare to meet the challenges of the new century.

By extending competition

The President put forward a detailed Medicare reform proposal last year, and he remains committed to enacting comprehensive reform in this Congress. A key element of this proposal is the move to full price and quality competition between traditional fee-for-service Medicare and managed-care plans.

By letting consumers realize most of the cost savings from choosing more efficient health plans, genuine competition will give all health plans a strong incentive to deliver the most value for money. At the same time, our proposal would ensure that seniors who move to lower-cost plans do so out of choice and not because of financial coercion. We look forward to working with the Members of this Committee to achieve these important objectives.

By providing coverage for prescription drugs

A second central element of Medicare reform is a voluntary prescription drug benefit that is affordable to all Medicare beneficiaries. Drug treatment has become an increasingly important part of modern health care, and no one would design a Medicare program today that excluded prescription drug coverage. Yet, roughly 3 out of 5 Medicare beneficiaries do not have dependable drug coverage today, and a majority of the uninsured have incomes greater than 150 percent of poverty. The Administration's proposal would provide a 50 percent subsidy for all seniors who choose to purchase the new Medicare drug benefit, with additional subsidies for lower-income seniors. The budget also includes a reserve fund of $35 billion for 2006 through 2010 to be used to design protections for beneficiaries with extremely high drug spending.

And by extending the solvency of Medicare

A third aspect of responsible Medicare reform is the addition of new resources into the Hospital Trust Fund. In the coming decades we expect to see a doubling in the number of Medicare beneficiaries, and continued advances in the ability of modern medicine to improve the length and quality of seniors' lives. We cannot meet the rising future demands on Medicare through our structural reforms alone. But by enacting the combination of reforms and transfers in the President's budget, the projected solvency of the Medicare program could be extended to 2025

III. Using Tax Cuts to Strengthen Our Communities

The President's budget creates room for prudent and targeted tax cuts totaling $250 billion on a net basis over the next decade and $350 billion on a gross basis. These tax initiatives would advance a broad range of national priorities, including: reducing poverty and stimulating the creation of small businesses in our deprived communities; strengthening incentives to work and to save; and making it easier for families to care for chronically ill relatives. The proposals would also close unfair tax loopholes and eliminate tax shelters.

Let me highlight briefly some of the most important tax cut proposals in the President's budget.

Retirement Savings

Almost one in five elderly Americans has no income other than Social Security: two-thirds rely on Social Security for half or more of their income. Half of all working Americans have no pension coverage at all through their current job. It is very clear that steps need to be taken to help Americans take greater responsibility for their own financial security in retirement, and new incentives should be targeted to moderate and lower-income working families.

The President proposes to address this situation by creating a new, broad-based savings account, Retirement Savings Accounts. These accounts would give 76 million lower- and middle-income Americans the opportunity to build wealth and save for their retirement.

Under our plan, individuals could choose whether to participate, on a strictly voluntary basis, either through a retirement plan sponsored by their employer, or through a special stand-alone account at a financial institution. The employer or the financial institution would match each individual's contribution, and then recover the cost of the match from the Federal government in the form of a tax credit.

Individuals could contribute up to $1,000 per year. Low-income individuals would qualify for a two-for-one match on the first $100 contributed, and a dollar-for-dollar match on additional contributions. Higher income participants could qualify for a 20-percent match, in addition to the tax incentives that apply to pension or IRA contributions. A person who participated in this savings program for their entire career could accumulate well over two hundred thousand dollars for his or her retirement.

In addition, the President proposes to make small employers eligible for new tax credits to help them set up or improve their retirement plans. Related proposals include measures to increase pension security and portability, and to improve disclosure to workers. Overall, the cost of these initiatives to expand retirement savings would total $77 billion over ten years.

Helping Working Families

The Earned Income Tax Credit has proved one of the most effective means of rewarding work and lifting people out of poverty. In 1998 alone, the EITC raised the income of 4.3 million working people above the poverty level. But many families still remain in poverty The

President proposes to help more families work their way out of poverty by increasing the earned income tax credit for the larger families that are most apt to be poor and relieving the marriage penalty under the EITC. The increases in the EITC would total $24 billion over the next ten years.

Under the budget plan we would also reduce the marriage tax penalty, strengthen work incentives, and cut taxes for the 70 percent of families who claim the standard deduction. To address the marriage penalty in a targeted way, the President proposes to make the standard deduction for two-earner married couples twice the standard deduction for singles. In 2005, when it is fully phased in, this proposal would raise the standard deduction for two-earner married couples by $2,150. Starting in 2005, the proposal would also simplify and reduce taxes for middle income taxpayers by increasing the standard deduction for single-earner married couples by $500 and for singles by $250. The proposal would make the child and dependent care tax credit refundable and raise the maximum credit rate to 50 percent.

Revitalizing our Communities.

By expanding the New Markets tax credit the budget would help spur $15 billion in new investment for businesses in inner cities and poor rural areas. The budget also proposes to extend and expand incentives for businesses to invest in empowerment zones.

Health

Last year the President proposed a tax credit that compensated families for the cost of looking after chronically ill relatives. But at $1,000, the credit was insufficient compensation for the rising burden that these families face. The President FY2001 proposal triples the credit to $3,000. We also propose to provide tax credits for workers between jobs who purchase COBRA coverage from their old employers.

Education

The budget proposes to save taxpayers $30 billion over ten years through the College Opportunity Tax Cut. When fully phased in, this new tax incentive would give families the option of taking a tax deduction or claiming a 28 per cent credit for up to $10,000 of higher education costs. This would provide up to $2,800 in tax relief to millions of families who are now struggling to afford the costs of post-secondary education. We also put forward a tax credit to help state and local governments build and renovate their schools.

Tax Simplification and Fairness

Although the Alternative Minimum Tax was originally intended to ensure that high-income taxpayers could not use tax breaks to avoid income tax altogether, we recognize that it is increasingly eating into the take-home pay of middle-income taxpayers, especially those with large families. We propose to redress this problem by allowing taxpayers to deduct all of their exemptions for dependents against AMT. By 2010 when it is fully phased-in, this change would halve the number of taxpayers affected by the AMT.

Corporate Shelters and Tax Havens

The proliferation of corporate tax shelters presents a growing and unacceptable level of abusive tax avoidance that reduces government receipts and consequently raises the tax burden on compliant taxpayers. Corporate tax shelters breed disrespect for the tax system -- both by those who participate in the tax shelter market and by those who perceive unfairness. A perception that well-advised corporations can and do avoid their legal tax liabilities by engaging in these tax-engineered transactions may cause a "race to the bottom."

The President's FY 2001 Budget again contains a comprehensive approach to addressing this problem. This approach is 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 these tax-engineered transactions. The main elements of the legislation include: requirements aimed at substantially improving the disclosure of corporate tax shelter activities, provisions to raise the penalty where there is substantial understatement of tax owed; and the codification of the economic substance doctrine. Enactment of corporate tax shelter legislation, combined with the efforts of the restructured IRS, will go along way towards deterring abusive transactions before they occur, and uncover and stop these transactions when they do take place.

Another area that raises similar concerns is the growing use of tax havens. These jurisdictions, through strict bank secrecy and other means, facilitate tax avoidance and evasion. Curbing this harmful tax competition should help businesses to compete on a level playing field and encourage investment growth and jobs. Our budget includes several provisions intended to reduce the attractiveness of tax havens and to increase access to information about activities in tax havens.

Other Provisions

There are a number of other important proposals that I would like to mention. These include: incentives to increase philanthropic donations; tax credits aimed at bridging the "digital divide", by encouraging investment in technology in deprived communities, and measures to help reduce pollution and emissions of greenhouse gases.

IV. Investing in Health, Education and Other National Priorities

The spending proposals in the President's budget are based on two fundamental principles.

The first principle is that we use realistic projections of the level of spending needed to maintain core government functions. To meet this requirement, we begin with a "current services" baseline under which discretionary spending is held constant on an inflation-adjusted basis.

Our budget policy would maintain defense spending at this baseline and reduce non-defense discretionary spending slightly below it, meaning that existing domestic programs would need to be trimmed by more than enough to finance new initiatives. In 1999, non-defense discretionary spending was a smaller share of GDP than at any point in at least 40 years; under our policy, it would represent a yet smaller share over the coming decade. Moreover, total outlays as a proportion of GDP would decline in 2001 and they would continue to decline on this basis for the rest of the decade.

The second fundamental principle of the President's spending proposals is to focus on critical national priorities, including health care, education, law enforcement, and technology. By focusing our initiatives in these and other key areas, we can meet people's needs in a fiscally disciplined way.

Let me briefly summarize our proposals in these four areas.

HealthCare

The President has proposed a bold initiative to reverse the disturbing increase in the number of Americans without health insurance. Through the combination of targeted spending proposals and tax incentives, we can expand health coverage to millions of uninsured Americans.

A central part of this initiative is an expansion of the State Children's Health Insurance Program, known as S-CHIP, which was introduced two years ago with broad bipartisan support. In the FY2001 budget we would build on the success of this program by extending it to cover the *parents* of eligible children, most of whom are uninsured. Another important element of this initiative is providing a Medicare buy-in option for people close to the Medicare eligibility age. This year, to make this option more affordable, our budget includes a tax credit to offset some of the premium.

Education

Education is another key priority in the President's budget, as has been true since the beginning of this Administration. For next year we are proposing an additional $1 billion for the Head Start program and almost $150 million for Early Head Start, which would put us within reach of serving one million children by 2002. We are also proposing sufficient funding to take us almost halfway to the President's goal of hiring 100,000 new teachers in order to reduce class sizes.

Law Enforcement

Turning to law enforcement, the budget includes significant new resources to enforce our nation's gun laws. Last Friday we released a report from the Bureau of Alcohol, Tobacco and Firearms showing that 1- percent of gun dealers account for well over half of all crime guns traced last year. The information from gun tracing will help us target our enforcement efforts, but we also need more agents and inspectors at the ATF and more prosecutors – and our budget will provide them.

At the same time we are requesting funds that would pay for recruiting and training of 50,000 new police officers, and funds that would strengthen the National Money Laundering Strategy.

Money laundering is a growing international problem, and we need this budget allocation to strengthen U.S. Leadership in fighting this problem.

Technology and the Environment

Another important national priority must be investment in the science and technology that will spur economic growth and improve people's lives in the 21st century. The President's budget includes a nearly $3 billion increase in crucial investments, including a $1 billion increase in funding for biomedical research for the National Institutes of Health and a rise in funding for the National Science Foundation that is double the previous largest increase. These investments will enable Americans to continue to lead the world in many areas of science and technology, including biomedical research, nano-technology, and clean energy.

The budget also contains $42 billion for high-priority environmental and natural resource programs, an increase of $4 billion over last year's enacted level. This includes $1.4 billion in discretionary funding for the Land's Legacy initiative to expand and protect our open spaces, an additional $1.3 billion to support farm conservation, and an additional $770 million to help combat global climate change.

V. American Leadership in the World

As we enter this new century, it is crucial that we continue to learn the lessons of the last one by working to build an ever-widening circle of more prosperous and more open international economies. This enables us to enjoy the benefits of peace and the spread of our core values. And we benefit more directly in the millions of high-paying jobs that exports create and the competition and innovation that openness to imports can promote. In short, globalization is not a zero sum game but a "win-win proposition" for America and its trading partners.

Let me outline several areas where we can strengthen this process while also enhancing our national security.

China

One of the President's top priorities this year is to seek Congressional approval for the agreement we negotiated to bring China into the World Trade Organization, by passing Permanent Normal Trading Relations with China as soon as possible. I firmly believe that China's entry into the WTO, under the terms of the trade agreement that we reached last November, is in our economic and national security interest.

- First, this is a good deal for American workers, farmers and businesses since the concessions all run one way, in our favor.

- Second, by integrating China into the rules-based world trading system, we will help promote reform within China and reduce the security threat that an isolated China can pose to America and the rest of the world.

Mr. Chairman, we will need your support to prevail, and look forward to working with you on this issue in the weeks and months ahead. We also look forward to working with you to implement the Caribbean Basin, African Trade, and Balkans Trade Initiatives.

Multilateral Development Banks

Obtaining adequate funding for U.S. participation in the MDBs remains a Treasury priority. 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. These programs are the most effective tools we have for investing in the markets of tomorrow. This budget's request for $1.35 billion is $40 million less than we requested last year, yet it would fully cover our annual obligations to the MDBs as well as paying down some of our arrears to a global system that we were instrumental in creating.

Highly Indebted Poor Countries Initiative

Let me thank Members of this Committee for your efforts in the FY2000 budget to provide broader, deeper and faster debt relief to the world's poorest and most heavily indebted nations. As a result, progress has been made. 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 open up their economies.

The President is asking for an additional $210 million this year and $600 million over the next three years to support multilateral and bilateral debt relief for countries under the Highly Indebted Poor Countries initiative. In doing so he is asking Congress to finish the enormously important work we began last fall.

Vaccines

The budget also contains requests that would help fulfill the President's Millennium Initiative for vaccines. By allocating $50m to the Global Alliance for Vaccines and Immunization, we could save many children's lives and at the same time help protect the health of American citizens. The President has also proposed a new tax credit that would help stimulate development of vaccines for malaria, HIV-AIDS and tuberculosis.

VI. Concluding Remarks

I began my remarks today by focusing on the link between fiscal discipline and the performance of our economy over the last seven years. Having worked hard to help bring us to the remarkable economic moment that we are now enjoying, the Members of this Committee know well the value to our economy and our country of further paying down the national debt held by the public. If we can act to reduce the debts we bequeath to our children, while continuing to fund our obligations to seniors and pursuing the vital purpose of making the economy work for all our people and communities, then we can maximize the extraordinary opportunities with which we are now presented. I look forward to working together with this Committee and others in Congress to turn these high-class challenges into even higher-class solutions. Thank you. I would now be happy to respond to any questions that you might have.

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

FEDERAL FINANCING BANK December 31, 1999

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

FFB holdings of obligations issued, sold or guaranteed by other Federal agencies totaled $42.8 billion on November 30, 1999, posting an increase of $376.9 million from the level on October 31, 1999. This net change was the result of an increase in holdings of agency debt of $709.7 million, and a decrease in holdings of agency assets of $260.0 million and in holdings of agency guaranteed loans of $72.8 million. FFB made 65 disbursements during the month of November. FFB also received 13 prepayments in November.

Attached to this release are tables presenting FFB November loan activity and FFB holdings as of November 30, 1999.

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FEDERAL FINANCING BANK
NOVEMBER 1999 ACTIVITY

Borrower	Date	Amount of Advance	Final Maturity	Interest Rate
ENCY DEBT				
ational Credit Union	11/01	$1,000,000.00	1/27/00	5.239% S/A
ational Credit Union	11/08	$40,000,000.00	3/02/00	5.339% S/A
ational Credit Union	11/12	$200,000,000.00	11/19/99	5.325% S/A
ational Credit Union	11/18	$200,000,000.00	11/26/99	5.367% S/A
ational Credit Union	11/19	$200,000,000.00	11/26/99	5.356% S/A
ational Credit Union	11/26	$200,000,000.00	12/02/99	5.419% S/A
ational Credit Union	11/26	$200,000,000.00	12/03/99	5.419% S/A
ational Credit Union	11/29	$200,000,000.00	12/06/99	5.416% S/A
ational Credit Union	11/30	$200,000,000.00	12/07/99	5.482% S/A
.S. POSTAL SERVICE				
S. Postal Service	11/01	$1,950,000,000.00	11/02/99	5.231% S/A
S. Postal Service	11/01	$419,300,000.00	11/02/99	5.284% S/A
S. Postal Service	11/02	$1,735,000,000.00	11/03/99	5.239% S/A
S. Postal Service	11/02	$348,500,000.00	11/03/99	5.263% S/A
S. Postal Service	11/03	$1,610,000,000.00	11/04/99	5.284% S/A
S. Postal Service	11/03	$275,600,000.00	11/04/99	5.242% S/A
S. Postal Service	11/04	$1,380,000,000.00	11/05/99	5.263% S/A
S. Postal Service	11/04	$331,900,000.00	11/05/99	5.221% S/A
S. Postal Service	11/05	$1,670,000,000.00	11/08/99	5.242% S/A
S. Postal Service	11/05	$153,700,000.00	11/08/99	5.260% S/A
S. Postal Service	11/08	$1,350,000,000.00	11/09/99	5.221% S/A
S. Postal Service	11/08	$42,100,000.00	11/09/99	5.325% S/A
S. Postal Service	11/09	$950,000,000.00	11/10/99	5.260% S/A
S. Postal Service	11/09	$163,300,000.00	11/10/99	5.314% S/A
S. Postal Service	11/10	$700,000,000.00	11/12/99	5.325% S/A
S. Postal Service	11/10	$251,400,000.00	11/12/99	5.325% S/A
S. Postal Service	11/12	$1,430,000,000.00	11/15/99	5.314% S/A
S. Postal Service	11/12	$439,900,000.00	11/15/99	5.354% S/A
S. Postal Service	11/15	$1,830,000,000.00	11/16/99	5.325% S/A
S. Postal Service	11/15	$428,800,000.00	11/16/99	5.419% S/A
S. Postal Service	11/16	$1,700,000,000.00	11/17/99	5.354% S/A
S. Postal Service	11/16	$230,000,000.00	11/17/99	5.419% S/A
S. Postal Service	11/17	$1,535,000,000.00	11/18/99	5.419% S/A
S. Postal Service	11/17	$289,000,000.00	11/18/99	5.367% S/A
S. Postal Service	11/18	$1,330,000,000.00	11/19/99	5.419% S/A
S. Postal Service	11/18	$301,900,000.00	11/19/99	5.356% S/A
S. Postal Service	11/19	$1,240,000,000.00	11/22/99	5.367% S/A
S. Postal Service	11/19	$257,900,000.00	11/22/99	5.354% S/A
S. Postal Service	11/22	$1,055,000,000.00	11/23/99	5.356% S/A
S. Postal Service	11/22	$258,000,000.00	11/23/99	5.398% S/A
S. Postal Service	11/23	$820,000,000.00	11/24/99	5.354% S/A
S. Postal Service	11/23	$222,300,000.00	11/24/99	5.398% S/A
S. Postal Service	11/24	$600,000,000.00	11/26/99	5.398% S/A

FEDERAL FINANCING BANK
NOVEMBER 1999 ACTIVITY

Borrower	Date	Amount of Advance	Final Maturity	Interest Rate
.S. Postal Service	11/24	$300,400,000.00	11/26/99	5.419% S/A
.S. Postal Service	11/26	$1,420,000,000.00	11/29/99	5.398% S/A
.S. Postal Service	11/26	$350,800,000.00	11/29/99	5.416% S/A
.S. Postal Service	11/29	$1,800,000,000.00	11/30/99	5.419% S/A
.S. Postal Service	11/29	$324,500,000.00	11/30/99	5.482% S/A
.S. Postal Service	11/30	$1,575,000,000.00	12/01/99	5.416% S/A
.S. Postal Service	11/30	$397,500,000.00	12/01/99	5.430% S/A
VERNMENT-GUARANTEED LOANS				
ENERAL SERVICES ADMINISTRATION				
emphis IRS Service Cent.	11/10	$3,449.31	1/02/25	6.394% S/A
tlanta CDC Lab	11/12	$3,378.40	1/30/02	5.951% S/A
tlanta CDC Lab	11/12	$7,989.80	1/30/02	5.951% S/A
emphis IRS Service Cent.	11/22	$7,279.18	1/02/25	6.463% S/A
URAL UTILITIES SERVICE				
arshalls Energy Co. #458	11/01	$115,000.00	1/02/18	6.810% Qtr.
nited Power Assoc. #432	11/03	$1,423,000.00	12/31/20	6.391% Qtr.
ennyrile Elec. #513	11/04	$4,000,000.00	1/03/33	6.315% Qtr.
range County Elec. #466	11/05	$325,000.00	10/02/28	6.293% Qtr.
ocorro Elec. #541	11/09	$759,000.00	12/31/29	6.156% Qtr.
arlboro Elec. #530	11/15	$830,000.00	1/03/34	6.081% Qtr.
razos Electric #561	11/17	$11,134,000.00	3/31/00	5.350% Qtr.
emez Mountains Elec. #499	11/17	$3,000,000.00	1/03/33	6.260% Qtr.
umter Elec. #485	11/17	$700,000.00	1/02/07	6.167% Qtr.
labama Electric #508	11/23	$2,152,000.00	1/03/23	6.426% Qtr.
labama Electric #564	11/23	$1,121,000.00	12/31/25	6.305% Qtr.
ackson Energy #527	11/30	$2,000,000.00	1/02/01	5.834% Qtr.

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

FEDERAL FINANCING BANK HOLDINGS
(in millions of dollars)

Program	November 30, 1999	October 31, 1999	Monthly Net Change 11/1/99-11/30/99	Fiscal Year Net Change 10/1/99-11/30/99
Agency Debt:				
U.S. Postal Service	$5,472.5	$5,603.8	-$131.3	-$806.6
National Credit Union Adm.-CLF	$841.0	$0.0	$841.0	$841.0
Subtotal*	$6,313.5	$5,603.8	$709.7	$34.4
Agency Assets:				
FmHA-RDIF	$3,410.0	$3,410.0	$0.0	$0.0
FmHA-RHIF	$6,775.0	$7,035.0	-$260.0	-$350.0
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*	$14,788.8	$15,048.8	-$260.0	-$350.0
Government-Guaranteed Lending:				
DOD-Foreign Military Sales	$2,595.3	$2,608.3	-$12.9	-$15.6
DoEd-HBCU+	$20.8	$20.8	$0.0	$9.8
DHUD-Community Dev. Block Grant	$12.9	$12.9	$0.0	-$0.7
DHUD-Public Housing Notes	$1,348.5	$1,419.9	-$71.4	-$71.4
General Services Administration+	$2,392.3	$2,405.0	-$12.7	-$12.7
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	$14,025.3	$13,997.8	$27.6	$140.4
SBA-State/Local Development Cos.	$186.7	$190.0	-$3.2	-$7.1
DOT-Section 511	$3.7	$3.7	$0.0	$0.0
Subtotal*	$21,740.4	$21,813.1	-$72.8	$42.6
Grand total*	$42,842.7	$42,465.7	$376.9	-$273.0

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

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

EMBARGOED UNTIL 9:30 A.M. EST
Text as prepared for Delivery
February 15, 2000

TREASURY ASSISTANT SECRETARY LEE SACHS HOUSE AGRICULTURE SUBCOMMITTEE ON RISK MANAGEMENT, RESEARCH AND SPECIALTY CROPS

Mr. Chairman, Mr. Condit, Members of this Committee, thank you for giving me the opportunity to discuss the report of the President's Working Group on Financial Markets on *Over-the-Counter Derivatives Markets and the Commodity Exchange Act.* The issues covered in the report have been a focus of this Committee, and on behalf of the members of the Working Group, we thank you for the leadership you have demonstrated on these important matters.

The over-the-counter derivatives market is an important component of the American capital markets and a powerful symbol of the kind of innovation and technology that has made the American financial system as strong as it is today. Yet the continued development of this market will depend to a great extent on the development of a clear and effective regulatory environment.

The report contains the unanimous recommendations of the President's Working Group on Financial Markets which is chaired by Secretary Summers and includes, among others, the Chairmen of the Federal Reserve, the Commodity Futures Trading Commission and the Securities and Exchange Commission. In its report, the Working Group recommends the enactment of legislation to reform the legal framework affecting the OTC derivatives market. Taken together, these changes would provide legal certainty, contribute to the reduction of systemic risk, protect retail customers, and stimulate the competitiveness of America's financial markets.

Let me divide my remarks into three parts:

- First, the growing importance of OTC derivatives in the US economy.

- Second, the objectives that guided Members of the Working Group when deciding on its recommendations and the importance of enacting those recommendations within the shortest reasonable time frame; and

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- Third, the six recommendations that the Working Group has produced.

I. The Role of OTC Derivatives in the US Economy

Mr. Chairman, our financial sector is the central nervous system of the American economy. As our economy and our financial markets have evolved over the past two decades, so too have the needs of the financial sector. Most notably, in an era of globalization, volatility of interest rates, increased securitization and the growth of the bond markets relative to the traditional loan markets, businesses and financial institutions have required a more diverse and effective set of tools for managing risk.

In that sense, the over-the-counter derivatives market has grown directly in response to the needs of the private sector. An OTC derivative is an instrument that allows a party seeking to reduce its risk exposure to transfer that exposure to a counterparty that wants and may be in a better position to assume the risk. This is an important development that has significantly enhanced the ability of businesses to manage their risk profiles, to compete more effectively in the global marketplace, and to deliver more efficiently and at lower cost a wide range of services and products to the American consumer.

Because of these rising demands, the notional value of global OTC derivatives has risen more than five-fold over the past decade, to more than $80 trillion according to estimates produced by the Bank for International Settlements.

Operating within a proper and appropriate framework of legal certainty, the benefits to the American economy of OTC derivatives would continue to grow. For example:

- By helping businesses and financial institutions to hedge their risks more efficiently, OTC derivatives enable them to pass on the benefits of lower product costs to American consumers and businesses.

- By allowing for the transfer of unwanted risk, OTC derivatives promote the more efficient allocation of capital across the economy, further increasing American productivity.

- By providing better pricing information, OTC derivatives can help promote greater efficiency and liquidity of the underlying cash markets that feeds into a stronger economy for all Americans.

- And, by enabling more sophisticated management of assets, including mortgages, consumer loans and corporate debt, OTC derivatives can help lower mortgage payments, insurance premiums, and other financing costs for American consumers and businesses.

Thus, OTC derivatives have the potential to bring important benefits to our economy. The goal of the recommendations of the President's Working Group is to ensure that these benefits can be realized. At the same time, we need to recall that the emergence of the OTC derivatives market has come during an era of unprecedented economic strength and prosperity.

It is to be expected that in times of distress some participants in this market, as in other financial markets, will be adversely affected. What needs to be protected, however, are not individual institutions but the system as a whole. The challenge is to strike the appropriate balance between the creation of a regulatory regime of legal certainty that allows the economy to realize the benefits of OTC derivatives while still providing appropriate protection for retail customers and the system. We believe that our recommendations strike such a balance.

Now let me turn to the more specific goals of the Working Group in producing the report.

II. Objectives of the Working Group's Report

Mr. Chairman, the members the President's Working Group believe that a strengthened OTC derivatives market can contribute to the greater efficiency of the US economy. They further believe that a failure to act in this area would risk a situation in which the existing legal framework for our financial markets would seriously lag the development of the markets themselves.

In the absence of an updated legal and regulatory environment, needless systemic risk might jeopardize the broader vitality of the American capital markets; innovation might be stifled by the absence of legal certainty; and American consumers might be deprived of the benefits that a more appropriate legal framework would deliver. We also risk an erosion of the competitiveness of American financial markets, with an increasing amount of business moving offshore to jurisdictions where the regulatory framework has kept up with the pace of change.

It was with these priorities in mind, Mr. Chairman, that last year you requested the Working Group to study the OTC derivatives market and recommend what changes were required. The Working Group worked on the assumption that legislative action would be required within a timeframe appropriate to the growing importance of the OTC derivatives market - and taking into account this market's potential contribution to the efficient functioning of the American financial sector and to that of the economy as a whole.

Accordingly, the Working Group sought to achieve four objectives:

- **To reduce systemic risk** in the OTC derivatives market by removing legal impediments to the development of clearing systems and ensuring that those systems are appropriately regulated.

- **To promote innovation** in the OTC derivatives market by providing legal certainty for OTC derivatives and electronic trading systems. This would strengthen the overall legal framework governing the OTC derivatives market that, in turn, would stimulate greater competition, transparency, liquidity, and efficiency and deliver stronger benefits to US consumers and businesses.

- **To protect retail customers** by ensuring that appropriate regulations are in place to deter unfair practices in all markets in which they participate and by closing existing legal loopholes that allow unregulated entities to pursue such unfair practices.

- **To maintain US competitiveness** by providing a modernized framework that will lead those engaged in the financial services industry to continue the operations of their businesses in the United States, and thereby assuring the continued leadership of American capital markets.

III. The Recommendations of the President's Working Group

Before outlining the Working Group's recommendations in greater detail, it bears emphasis that the Working Group did not reach its conclusions lightly. In view of the technical nature and history of many of the issues considered, the unanimous nature of our recommendations is very significant. It is our firm belief that the situation calls for legislation at the soonest appropriate opportunity.

I will now turn to the recommendations.

1. Create an Exclusion from the CEA for most Swaps Agreements

The Working Group is recommending that an exclusion for certain swaps between eligible counterparties be codified by Congress in the Commodities Exchange Act. This exclusion would be similar to the CFTC's 1993 rule exempting swaps. It would not, however, extend to agreements involving non-financial commodities with finite supplies that could potentially be subject to manipulation, such as agricultural commodities. The CFTC would retain exemptive authority for these types of swaps including swaps related to agricultural commodities. The exclusion would cover equity swaps, a category of swaps about which there is also some amount of legal uncertainty.

Mr. Chairman, this recommendation would provide legal certainty by excluding interest rate and equity swap agreements from the scope of the CEA and remove doubts about the enforceability of these contracts in the courts. It is clear to the Working Group that this exclusion is the best approach to assure that the OTC derivatives market can develop within the kind of innovative and legally stable environment on which the continued competitiveness of our financial markets will depend. The exclusion would also contribute to the permanent clarification of the status of OTC derivatives that is essential for the integrity of the market.

The current legal uncertainty concerning whether swaps are subject to the CEA has its roots in the 1974 legislation that created the CFTC. That legislation significantly increased the scope of the CEA by broadening the definition of what constitutes a "commodity." As a result, most interest rates, for example, are now considered "commodities" under the CEA, and exchange-traded interest rate futures are thus regulated by the CFTC. We do not believe that off-exchange transactions that are tied to interest rates are themselves futures contracts and therefore should not be subject to CFTC regulation. To some market participants, however, there has been uncertainty on this critical question.

The Working Group members perceive no compelling evidence of problems involving the swaps that we are recommending for exclusion that would warrant regulation under the CEA. Rather, we believe that an exclusion is appropriate because the participants in such transactions are generally capable of making informed investment decisions and do not require the additional protections provided under the CEA. We further believe that the legal certainty provided by statute will be more durable and reliable than that provided by regulations, which are more easily changed.

The CEA is designed primarily to address issues of fraud, manipulation, and price discovery. Sophisticated participants can protect themselves against fraud or can seek legal redress if they are defrauded. There is little evidence to suggest that markets for financial OTC derivatives are readily susceptible to manipulation. And, in the case of derivatives based on securities, existing securities laws would in any event be applicable to any attempts to manipulate security prices. In addition, financial OTC derivatives do not yet serve a primary price discovery function. And the activities of most OTC derivative dealers are already subject to direct or indirect federal oversight.

2. *Create an Exclusion for Electronic Trading Systems*

Our second recommendation would create an exclusion from the CEA for electronic trading systems that limit participation to sophisticated parties trading for their own accounts. Again, the exclusion would not apply to trading systems involving non-financial commodities with a finite supply such as agricultural commodities.

By confining the exclusion to trading systems involving only qualified participants, this recommendation is designed to protect retail customers without unnecessarily obstructing innovation where regulation is not justified. Importantly, electronic trading systems promote transparency and efficiency and thus reduce the cost of trading interest rate and other types of swap contracts. In that sense the exclusion would strengthen the competitiveness of the American OTC derivatives market.

At the same time, while agreeing that an exclusion from the CEA is appropriate, the Working Group has undertaken to monitor the development of electronic trading systems for OTC derivatives going forward, with a view to evaluating whether limited regulation of these systems to enhance market transparency and price discovery should become appropriate at a later date.

3. Permit the Use of Appropriately Regulated Clearing Systems for OTC Derivatives

The third recommendation of the report would permit the creation of clearing systems for OTC derivatives while requiring that such systems be subject to appropriate regulation. This proposal is designed to reduce systemic risk by encouraging the creation of appropriately regulated clearing systems for OTC derivatives.

Well-designed clearinghouses can contribute significantly to reducing systemic risk: first, by diminishing the likelihood that the failure of a single market participant can have a disproportionate effect on the market as a whole; and second, by facilitating the offsetting and netting of contract obligations. A reduction in systemic risk would in turn enhance the stability of our financial system and increase its competitive edge. Nonetheless, in view of the concentration of risk within these entities, the Working Group believes that regulation of such clearing systems is appropriate.

4. Clarify the Original Intent of the Treasury Amendment

This recommendation would clarify the Treasury Amendment in two ways. First it would enable the CFTC to address the problems associated with foreign currency "bucket shops" by codifying the CFTC's authority to regulate such entities and to prosecute such entities when they attempt to defraud retail customers. This would support the CFTC's objective of regulating entities that allegedly defraud retail customers, thus strengthening protection for small investors.

Second, the recommendation would preserve CFTC authority over Treasury Amendment transactions on "organized exchanges" while excluding most other transactions in Treasury Amendment products from the scope of the CEA.

The Treasury Amendment was originally designed primarily to exclude trading of OTC derivatives tied to underlying government securities and foreign exchange from the regulatory scope of the CEA. The exclusion, as currently worded, applies to all such contracts unless the transaction involved the sale of futures on a "board of trade." But uncertainty persists about the precise meaning of what constitutes a "board of trade" and whether it could be interpreted to encompass entities such as investment and commercial banks.

As a result, the Working Group recommends that the term "board of trade" be replaced by the phrase "organized exchange" to provide legal certainty for OTC instruments excluded under the Treasury Amendment and that an appropriate statutory definition of "organized exchange" is provided.

5 & 6. Clarify the Exempt Status of Hybrid Instruments

The final two recommendations are highly technical in nature and designed to enhance legal certainty by clarifying that hybrid instruments that reference securities can be exempted from the CEA. The recommendations also resolve potential jurisdictional disputes between the CFTC and other regulators with respect to such instruments by limiting the exclusive jurisdiction clause of the CEA.

IV. Conclusion

Mr. Chairman, the President's Working Group has presented the Congress with a set of unanimous recommendations pertaining to the growing and increasingly important market for OTC derivatives in the United States. We believe that these recommendations, taken together, would reduce systemic risk, promote innovation, competition, efficiency and transparency in our financial markets; would protect retail customers, and help to maintain American leadership in OTC derivatives markets.

In this context, we believe that legislation is necessary. We suggest a paradigm for that legislation that recognizes that with the appropriate legal framework, the OTC derivatives market can make a valuable contribution to the efficient functioning of the American capital markets, with benefits for both businesses and consumers. Under the existing regulatory framework, as the report makes clear, there is a risk that these benefits will not be fully realized.

The Working Group's report focuses on OTC derivatives. At the same time, while not the subject of our report, we recognize the importance of ensuring an appropriate and not overly burdensome regulatory environment for exchange-traded derivatives. The Working Group supports the CFTC's ongoing efforts to explore regulatory relief in this area, without prejudging the results of their analysis. We look forward to working with them and other members of the Working Group to assure that our markets remain the most competitive and innovative in the world, while assuring the integrity of these markets is protected for all participants.

Thank you. I would now welcome any questions that you may have.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

For Immediate Release
February 16, 2000

Contact: Maria Ibanez
202-622-2960

TREASURY APPLIES SUDAN SANCTIONS TO JOINT OIL VENTURE

The Treasury Department announced today that economic sanctions against Sudan have been applied to Sudan's state-owned oil enterprise Sudapet Ltd. and to the Greater Nile Petroleum Operating Company Ltd. (GNPOC), a joint venture in Sudan between the Government of Sudan, three foreign oil companies, and Sudapet. The foreign joint venture partners, which have not been designated, are the state-owned China National Petroleum Corporation (CNPC), Malaysia's state-owned oil company Petronas, and Canada's Talisman Energy Corporation.

The addition of GNPOC and Sudapet to the list of entities owned or controlled by or acting on behalf of the Government of Sudan means that U.S. persons and their foreign branches are prohibited from engaging in most trade and financial transactions with these entities, and that any GNPOC or Sudapet assets within the possession or control of U.S. persons are frozen.

Doing business with GNPOC or Sudapet, like doing business with the Government of Sudan, carries criminal penalties of up to $500,000 per violation for corporations and up to $250,000 for individuals, as well as imprisonment of up to 10 years. Civil penalties of up to $11,000 per violation may be imposed administratively by Treasury's Office of Foreign Assets Control (OFAC).

Today's announcement increases to 125 the total number of Government of Sudan entities designated by OFAC pursuant to Executive Order 13067 of November 3, 1997.

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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
February 14, 2000

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Term:	91-Day Bill
Issue Date:	February 17, 2000
Maturity Date:	May 18, 2000
CUSIP Number:	912795DW8

High Rate: 5.510% Investment Rate 1/: 5.682% Price: 98.607

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 15%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 24,116,280	$ 7,372,293
Noncompetitive	1,346,135	1,346,135
PUBLIC SUBTOTAL	25,462,415	8,718,428 2/
Foreign Official Refunded	284,573	284,573
SUBTOTAL	25,746,988	9,003,001
Federal Reserve	4,506,564	4,506,564
Foreign Official Add-On	10,427	10,427
TOTAL	$ 30,263,979	$ 13,519,992

Median rate 5.490%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 5.430%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 25,462,415 / 8,718,428 = 2.92

1/ Equivalent coupon-issue yield.
2/ Awards to TREASURY DIRECT = $1,058,149,000

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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
February 14, 2000

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Term:	182-Day Bill
Issue Date:	February 17, 2000
Maturity Date:	August 17, 2000
CUSIP Number:	912795EE7

High Rate: 5.760% Investment Rate 1/: 6.032% Price: 97.088

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	$ 19,044,192	$ 4,482,215
Noncompetitive	1,211,697	1,211,697
PUBLIC SUBTOTAL	20,255,889	5,693,912 2/
Foreign Official Refunded	2,309,527	2,309,527
SUBTOTAL	22,565,416	8,003,439
Federal Reserve	3,725,000	3,725,000
Foreign Official Add-On	85,473	85,473
TOTAL	$ 26,375,889	$ 11,813,912

Median rate 5.750%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 5.680%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 20,255,889 / 5,693,912 = 3.56

1/ Equivalent coupon-issue yield.
2/ Awards to TREASURY DIRECT = $827,295,000

http://www.publicdebt.treas.gov

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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U.S. International Reserve Position

February 15, 2000

The Treasury Department today released U.S. reserve assets data for the week ending February 11, 2000.

As indicated in this table, U.S. reserve assets totaled $69,570 million as of February 11, 2000, down from $69,786 million as of February 4, 2000.

(in US millions)

I. Official U.S. Reserve Assets		February 4, 2000			February 11, 2000		
	TOTAL	69,786			69,570		
1. Foreign Currency Reserves [1]		Euro	Yen	TOTAL	Euro	Yen	TOTAL
a. Securities		4,914	5,969	10,884	4,954	5,890	10,844
Of which, issuer headquartered in the U.S.				0			0
b. Total deposits with:							
b.i. Other central banks and BIS		8,448	11,554	20,002	8,529	11,400	19,929
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]				17,509			*17,444*
3. Special Drawing Rights (SDRs) [2]				10,343			*10,304*
4. Gold Stock [3]				11,048			11,048
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 February 4, 2000 are final. Data for SDR holdings and the reserve position in the IMF shown as of February 11, 2000 (in italics) reflect preliminary adjustments by the Treasury to the February 4, 2000 IMF data.

3/ Gold stock is valued monthly at $42.2222 per fine troy ounce. Values shown are as of December 31, 1999. The November 30, 1999 value was $11,049 million.

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U.S. International Reserve Position (cont'd)

II. Predetermined Short-Term Drains on Foreign Currency Assets	February 4, 2000	February 11, 2000
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	February 4, 2000	February 11, 2000
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		

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EMBARGOED UNTIL 2:30 P.M.
February 15, 2000

Contact: Office of Financing
202/691-3550

TREASURY TO AUCTION CASH MANAGEMENT BILLS

The Treasury will auction approximately $30,000 million of 69-day Treasury cash management bills to be issued February 18, 2000.

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 69-DAY CASH MANAGEMENT BILL

February 15, 2000

<u>Offering Amount</u> .... $30,000 million

<u>Description of Offering</u>:

Term and type of security	69-day Cash Management Bill
CUSIP number	912795 DT 5
Auction date	February 17, 2000
Issue date	February 18, 2000
Maturity date	April 27, 2000
Original issue date	April 29, 1999
Currently outstanding	$38,283 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 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.

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EMBARGOED UNTIL 10:00 A.M. EST
Text as prepared for Delivery
February 16, 2000

TREASURY ASSISTANT SECRETARY GREGORY A. BAER
HOUSE BANKING SUBCOMMITTEE ON FINANCIAL INSTITUTIONS AND CONSUMER CREDIT

Madam Chairwoman, Congressman Vento, and Members of the Subcommittee, I appreciate this opportunity to present the Administration's views on the potential merger of the bank and thrift deposit insurance funds and related deposit insurance issues. We commend the Committee for giving this topic the attention its deserves.

The Administration supports merging the FDIC's Bank Insurance Fund (BIF) and Savings Association Insurance Fund (SAIF), as it has for several years. A merger of the two funds would produce a single, more diversified and less risky fund, diminishing the chances that a series of bank or thrift failures could deplete the funds and necessitate a call on taxpayers. We believe that now is the optimal time to merge the funds, when both are in good health and the banking and thrift industries are in strong condition. Let me divide my remarks into three parts: first, the benefits of merging the deposit insurance funds expeditiously; second, questions concerning the adequacy of the current designated reserve ratio of 1.25 percent; and third, the appropriateness of rebating insurance reserves at some level above 1.25 percent.

Merging the Deposit Insurance Funds: Background

In 1995, the Treasury Department, the FDIC, and the Office of Thrift Supervision (OTS) jointly proposed a solution to problems with SAIF. At that time, SAIF had inadequate reserves and income. Its assessment base had been declining for several years, threatening SAIF's ability to meet its obligation to pay the interest on Financing Corporation (FICO) bonds issued in the late 1980s to replenish the former thrift deposit insurance fund. The prospect of a long-term, significant differential between SAIF and BIF premiums had given SAIF members strong incentives to shrink their SAIF-insured deposits, which only served to exacerbate SAIF's problems.

The Treasury-FDIC-OTS proposal had three key components: capitalization of SAIF; spreading of the FICO interest obligation across all insured depository institutions; and merger of BIF and SAIF.

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Congress enacted the first two of these reforms in the Deposit Insurance Funds Act of 1996, which President Clinton signed into law as part of the Omnibus Appropriations legislation for Fiscal Year 1997.

- The Act required thrift institutions to capitalize SAIF by paying a special assessment on their deposits. This assessment raised SAIF's fund balance to the targeted level of 1.25 percent of insured deposits.

- The Act also spread the obligation for FICO interest costs across all FDIC-insured depository institutions, rather than on only SAIF-member savings associations. FICO interest payments were therefore supported by a large and growing assessment base, instead of a small and declining one.

The thrift special assessment and the spreading of FICO interest costs allowed subsequent SAIF premiums to decline and eliminated the premium disparity between BIF and SAIF. Banks and thrifts are thus currently subject to the same risk-based premium rates. Both SAIF and BIF now have fund balances in excess of the 1.25 percent designated reserve ratio: as of September 1999, SAIF's fund balance stood at 1.44 percent of insured deposits, while BIF's reserve ratio was 1.38 percent.[1]

Why Merging the Deposit Insurance Funds Make Sense

With both funds healthy, the Administration believes that now is the time to merge the deposit insurance funds. There are several reasons to support such a merger.

First, a merger of BIF and SAIF would strengthen the deposit insurance system because a larger, combined fund would benefit from greater diversification of risks than either the bank or thrift fund separately.

FDIC staff studies published last year found that banking industry consolidation has increased risks to BIF over the past decade. With an increasing percentage of industry assets spread over a decreasing number of banks, the probability that the failure of one of these large organizations would deplete BIF's resources has increased. According to the studies, the failure of a top 10 banking organization would carry a 12.5 percent chance of causing the fund to become insolvent.[2]

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[1] The SAIF fund balance includes the SAIF Special Reserve, which was set aside from SAIF as of January 1, 1999 and merged back with SAIF as of November 12, 1999.

[2] Oshinsky, Robert, "Effects of Bank Consolidation on the Bank Insurance Fund," Working Paper Series, FDIC Division of Research and Statistics, Working Paper 99-3, and Oshinsky, Robert, "Merging the BIF and the SAIF: Would a Merger Improve the Funds' Viability," Working Paper Series, FDIC Division of Research and Statistics, Working Paper 99-4.

Thus, a larger merged fund would provide a small but helpful offset to the increased risks that BIF currently faces from banking industry consolidation. Whereas the largest holder of BIF-insured deposits currently accounts for 8.7 percent of these deposits and the five largest holders of BIF-insured deposits account for 22.0 percent, those percentages would fall to 6.5 percent and 19.6 percent, respectively, in a merged fund.[3]

SAIF has similar large-firm concentrations, although its risk diversification over the last decade has improved as some SAIF-insured thrifts and their deposits were purchased by commercial banks (so-called "Oakar" transactions). SAIF also faces product concentrations, as many of its members have significant holdings of residential mortgages, and geographic concentrations.

Second, it makes sense to merge the funds while the industry is strong and while the merger would not unfairly burden either BIF or SAIF members. Based on September 1999 data, a combined fund would have a reserve balance of $39.7 billion, and insured deposits of $2.84 trillion, for a reserve ratio of 1.40 percent. That would represent only a slight dilution for SAIF members (currently facing a reserve ratio of 1.44 percent), and a slight improvement for BIF members (whose fund currently has a 1.38 percent reserve ratio). Given the current designated reserve ratio and premium rates, neither thrifts nor banks would face higher costs as a result.

A third reason to merge BIF and SAIF is to guarantee that a premium disparity for the same product -- FDIC insurance -- will not arise again. Banks and thrifts with equivalent risks should pay the same premiums for their deposit insurance. Yet, as we have seen in the past, factors unique to one fund or the other might force FDIC in the future to set different risk-based premium rates for BIF and SAIF. The experience of the years leading up to the 1996 SAIF legislation demonstrates that depository institutions react to the emergence of such a differential by going to great lengths to find ways to reduce their reliance on the more expensive deposits. This activity represents a wasteful expenditure of resources, and a drain on industry efficiency and competitiveness.

Fourth, it is increasingly hard to maintain that SAIF is the deposit insurance fund for thrifts, while BIF insures banks. Both already are hybrid funds. Each insures the deposits of commercial banks, savings banks, and savings associations. As of September 1999, BIF-member banks accounted for over 37 percent of SAIF-insured deposits. And 31 percent of the total insured deposits of savings associations and savings banks are insured by BIF. A fund merger would simply recognize the commingling of the insurance funds that has already taken place and that is likely to continue.

Adequacy of the 1.25 Percent Designated Reserve Ratio

Your invitation also asked for the Administration's views on the adequacy of the statutory designated reserve ratio, and the feasibility of imposing a cap on the insurance funds and rebating

[3] Source: Office of Thrift Supervision, based on FDIC data.

reserves above that level. I will discuss each issue in turn, but would like to start with one general observation. Any discussion about the appropriate level for the deposit insurance funds must come with a high level of humility and a clear recognition of the uncertainty of any predictions in this area. First, it is worth remembering that the thrift crisis – and in particular, the inability of deposit insurance reserves to cover losses from thrift failures – cost the taxpayers of this country over $125 billion. Although the banking industry is justifiably unhappy at the $793 million per year in FICO interest payments that it and the thrift industry make to finance the S&L cleanup, taxpayers currently make $2.3 billion in annual interest payments on REFCorp bonds and billions more on Treasury bonds issued for the same purpose. Second, it is also worth remembering that in 1981 the reserve ratio for the Bank Insurance Fund was at 1.24 percent, almost exactly at the fund's current designated reserve ratio. There were doubtless some in 1981 who may have believed that 1.24 percent was enough. Yet ten years later, in 1991, the reserve ratio was *negative 0.36 percent*.

This leads to your questions about the adequacy of the designated reserve ratio, currently at 1.25 percent of insured deposits, in light of the effects of prompt corrective action, national depositor preference, and the recently enacted financial modernization legislation.

The target of $1.25 in reserves for every $100 of insured deposits was established in the Financial Institutions Reform, Recovery, and Enforcement Act of 1989. Although its origins are somewhat obscure, we understand that a ratio of 1.25 percent was selected because it was considered generally in line with the FDIC's previous practice.

Congress and the regulators have in the past decade taken steps to reduce the likelihood of losses to the FDIC insurance funds. Nonetheless, as explained below, we believe it would be premature to conclude that these steps provide sufficient assurance to justify a rethinking of the current reserve ratio policy.

- Prompt corrective action, a system of capital-based supervision, was enacted as part of the FDIC Improvement Act of 1991 (FDICIA). It was intended to prevent regulatory forbearance by mandating increasingly stringent regulatory sanctions as an institution's capital declines, with closure of the institution required while the institution still has positive net worth. Although prompt corrective action holds the promise of lowering the number and severity of bank and thrift failures, it has not been tested during an economic downturn. We believe that more work needs to be done in evaluating the efficacy of prompt corrective action – in particular, whether capital is proving to be a leading or lagging indicator of bank condition.

- FDICIA also required the FDIC, when deciding how to resolve a depository institution facing default, to choose the method of resolution least costly to the deposit insurance fund, which generally would mean not protecting uninsured depositors and other creditors. Although there is an exception to the least-cost rule where systemic risk may be threatened, that exception cannot easily be invoked, and there are significant financial consequences for the industry if it is invoked.

- A law enacted in 1993 gave depositors a preference over general creditors in their claims against the estate of a failed bank. This could help the FDIC recover a greater portion of the funds it disburses. This benefit could be diminished, however, to the extent that the general creditors collateralize their claims or quickly withdraw their funds at the early signs of trouble.

- It may also be noted that interstate banking and expansion of bank powers, coupled with better risk management techniques, should help the industry diversify and thereby reduce risks to the deposit insurance funds. Yet as banking organizations take advantage of these new powers, new kinds of operational and other risks may also arise.

We hope and expect that the deposit insurance reforms of the early 1990s will provide added protection to the FDIC over the long term. But we believe that it would be premature to argue that they justify any change in reserve policy for the deposit insurance funds. Since these reforms were implemented, we have been in the longest economic expansion in the nation's history. We simply do not know what effect these reforms will have during a period of significant financial distress.

Indeed, we believe that industry consolidation may be a more significant factor affecting the deposit insurance funds' risk profile going forward. Using a model based on historical loss and failure rates, FDIC staff estimates that the probability of BIF insolvency, albeit small, has increased by more than half due to industry consolidation. It should be noted that the analysis shows that even a significant increase in the designated reserve ratio would not completely erase the increased concentration risk to BIF.[4]

Capping the Deposit Insurance Fund and the Question of Rebates

Madam Chairwoman, you asked for comment on an appropriate cap for a merged insurance fund, specifically inquiring whether a 1.5 percent cap would be appropriate. You also sought our views on rebates, considering the history and statutory authority of both the FDIC and NCUA. We consider these two issues to be linked, since imposing a maximum insurance fund size would implicitly require some sort of payment to insurance fund members if the maximum level were reached.

As we understand the current proposals for rebates, they would change current law to allow payments of rebates out of the fund's principal balance or interest income so long as the fund remained above a specified level, such as 1.5 percent. We oppose a structure that caps the insurance fund and mandates rebates of any "excess" reserves above that cap.

A rebate of "excess" reserves that could result from imposing a maximum insurance fund size would represent a break with past and current FDIC rebate structures:

- From 1950 through the 1980s, the law provided that FDIC pay rebates equal to a specified fraction (2/3 or 60 percent at various times) of its net assessment income. Net assessment

[4] Oshinsky, Working Paper 99-3.

income was the excess – if any -- of premiums paid over expenses and losses for a given period. The fund's principal balance and interest income were not available for rebates.

- Beginning in 1980, the amount of net assessment income rebated was tied to a range for the insurance fund reserve ratio, but growing losses forced FDIC to reduce and ultimately eliminate its rebates by the mid-1980s. In 1989, Congress prohibited rebates if the insurance fund was not at its designated reserve ratio, and abolished rebate authority in 1991.

- Congress restored rebates for BIF (but not for SAIF) in 1996. Healthy institutions can receive a "refund" of premiums paid for the assessment period only to the extent that the funds are not needed to meet the designated reserve ratio. Under its current authority, therefore, the FDIC pays no refunds since healthy institutions pay no premiums.

We oppose, for the following reasons, a change to current law that would allow banks and thrifts not only to pay no premiums but also to receive payments from the principal balance and interest income of the fund.

First, we do not find sufficient evidence for concluding that any insurance fund net worth above 1.5 percent represents "excess" capital that should be returned to insured institutions rather than retained by the insurer. We believe that those seeking to cap insurance fund reserves should bear the burden of proving that current fund net worth levels are excessive, and we are aware of no actuarial study reaching that conclusion. Indeed, at its current level of capitalization, BIF's reserves could be entirely depleted by the failure of the largest one or two BIF members. Even if merged with SAIF, the combined fund would not be able to withstand the failure of more than a few of the largest institutions. To be sure, under current law the FDIC would have the authority to replenish the fund through assessments on the industry. But such assessments would probably come at a time when the industry is least able to pay them, and could have a pro-cyclical economic effect. Thus, we believe that allowing the insurance funds to continue building up reserves through interest income during good economic times is good policy.

Second, rebates would exacerbate what is already a poor set of incentives around deposit insurance. FDICIA wisely required the FDIC to tie the deposit insurance premium paid by each insured depository institution to the risks that it poses to the fund. However, a provision to which the Administration objected in the 1996 SAIF legislation has significantly restricted the FDIC's ability to charge premiums. The FDIC may not charge premiums to institutions that are well capitalized and do not have "financial, operational, or compliance weaknesses ranging from moderately severe to unsatisfactory" if the premiums are not needed to maintain the designated reserve ratio. As a result, more than 90 percent of banks and thrifts currently pay no premiums at all. Reserves have continued to grow not because of premium income, but only because interest earned on holdings of Treasury securities has outpaced fund expenses and losses.

It is worth thinking about what the absence of insurance premiums means in practical terms: a well-capitalized institution with significant non-deposit liabilities can convert those liabilities to federally insured deposits without incurring any insurance premium charges at all. Indeed, there are reports that a major financial services company that owns insured depository institutions is planning to do exactly that with billions of dollars of liabilities. Put another way, such an institution can impose a large new contingent liability on the insurance fund, and ultimately the taxpayers, without paying compensation for it. The failure to charge such premiums creates clear incentives for risk taking.

Rebating funds in excess of some cap on insurance reserves could take bad incentives and make them perverse. In essence, the FDIC would be paying institutions for the risks that they impose on the insurance funds.

Third, banks and thrifts obtain insured deposit funding at low cost because depositors know that they are protected not only by the FDIC insurance funds, but also by the full faith and credit of the United States. As the ultimate guarantor of depositors' funds, taxpayers are providing every bank with a product of significant financial value. The Government does not explicitly charge for full faith and credit support to deposit insurance. Yet the subsidy value provided by this credit enhancement would likely rise if FDIC reserves are prevented from growing. This, too, would increase incentives for institution risk taking that could raise the Government's loss exposure.

Finally, allowing insurance fund reserves to rise in good economic times is simply sound financial policy that should benefit depository institutions and the FDIC. As I noted earlier, should a downturn occur, FDIC would have more reserves upon which to draw than if the fund were capped. This could help to postpone the date of any future increase in premiums, or reduce the magnitude of any such increase.

Comparison to the NCUA Structure

In asking for our views about rebates, you requested that we consider the history and statutory authority of the National Credit Union Administration (NCUA) to pay rebates to members.

Both the FDIC and NCUA designate a reserve target for their respective insurance funds. The FDIC targets a fund level that would meet the designated reserve ratio, currently 1.25 percent of insured deposits. Under certain conditions, FDIC may raise the designated reserve ratio. The NCUA must establish a target level for its Share Insurance Fund (SIF) reserves between 1.2 percent and 1.5 percent of insured credit union shares; the current target level is 1.3 percent.[5] FDIC cannot charge premiums to healthy institutions if insurance fund reserves exceed 1.25 percent. NCUA cannot charge premiums if insurance fund reserves exceed 1.3 percent.

Nonetheless, there are significant differences between FDIC-insured institutions and credit unions in how they contribute to their respective insurance funds and account for those contributions:

[5] The SIF must also maintain an "available assets" (liquid net worth) ratio of 1 percent of insured shares.

- *Contributions by Insured Institutions:* FDIC sets premiums for banks and thrifts in amounts necessary to meet the designated reserve ratio. NCUA requires credit unions to meet the SIF target reserve level primarily by maintaining on deposit in the SIF an amount equal to 1 percent of their insured shares. (The amount that each credit union has on deposit is adjusted regularly to account for growth in its insured shares.) Credit unions may also be required to pay premiums to meet target reserves, depending on investment income, expenses, and losses.

- *Accounting for Contributions to Insurance Funds:* Banks and thrifts record the premiums that they pay as expenses. Credit unions expense any insurance premiums they may pay, but record the 1 percent deposit that they place with the NCUA as an asset on their books.

- *Premium Rate Structure:* FDIC premiums are tied to the risks of the insured institutions. NCUA may charge only flat-rate premiums based on credit unions' insured shares.

- *Shortfalls in Insurance Funds:* If an FDIC insurance fund balance falls below 1.25 percent of insured deposits, FDIC must charge sufficient premiums to eliminate the shortfall, but may allow insured institutions to replenish the fund over a period of up to 15 years. NCUA may charge premiums if SIF's reserves fall below 1.3 percent, and must charge premiums if reserves fall below 1.2 percent. If the fund falls below 1 percent, credit unions must expense a proportional amount of the 1 percent deposit, and have to replenish any shortfall from 1 percent generally within one year.

The NCUA makes distributions of reserves to credit unions if SIF reserves exceed the target level, and NCUA may not set the target reserve level above 1.5 percent. Credit unions receive distributions from SIF in proportion to their 1 percent deposit.

It is difficult to evaluate how the reserve cap and rebate structure might work if applied to the FDIC without considering other key elements of the credit union insurance fund structure.

Any perverse incentives caused by a rebate are diminished in the context of the NCUA structure, since even if rebates are paid, individual credit unions must make ongoing contributions to SIF in proportion to their insured share growth. Under the current FDIC structure, no such ongoing contributions are required.

If the FDIC were to adopt the NCUA's one percent deposit approach, including the ongoing contributions for institution growth, higher capital requirements for banks and thrifts would be necessary. The accounting treatment of the 1 percent deposit double counts a portion of the buffer to absorb losses – that is, the sum of industry net worth and insurance reserves. To compensate for this double counting, credit union net worth requirements were set at a level higher than that applicable to banks and thrifts.

But the credit union reserve cap and rebate structure must also be seen in the context of the structure and risk profile of the credit union industry. Industry consolidation does not pose nearly the same degree of risk to the credit union insurance fund as it does to the FDIC. The Treasury's report on credit unions found that the failure of the largest credit union, or three of the largest credit unions, would require credit unions to write-off only 20 percent of deposits at the SIF.

Recommendations for Other Legislative or Regulatory Actions

Your invitation asked whether we have related legislative or regulatory recommendations (apart from a fund merger). I spoke earlier of our concerns with the provisions of current law that greatly restrict the FDIC's ability to tie insurance premiums to risk. We believe that the FDIC should have more flexibility to improve the pricing of deposit insurance. Specifically, premium rates or the premium assessment base should be changed to reflect more accurately the FDIC's risk position by accounting for secured borrowings. Since the FDIC stands in line behind secured creditors in the resolution of a failed bank, the FDIC should be permitted to take account of a bank's secured liabilities in determining premiums. For example, a bank that replaces unsecured borrowing with Federal Home Loan Bank advances or repurchase agreements has effectively moved the FDIC to a lower position in claims on the bank's assets, yet the FDIC has received no compensation for the increased risk. As I mentioned earlier, one concern with the federal depositor preference law is that it gives a weak bank's creditors an incentive to secure their interest. Doing so gives those creditors a priority claim on the bank's assets (usually the best assets) while increasing the FDIC's expected losses should the bank fail.

In addition, we believe that Congress should rescind the Federal Home Loan Bank's so-called superlien on member assets.[6] This statutory provision gives priority to a FHLBank's security interest in the assets of a failed bank, even if it has not perfected its security interest in such collateral. Consequently, the FHLBanks typically require a blanket lien over a large portion of a member's assets, essentially giving the FHLBanks a claim over those assets superior to that available to the FDIC. The superlien was instituted in 1987 in order to encourage the FHLBanks to continue lending to troubled thrifts – a form of forbearance. We see no reason to continue giving a government sponsored enterprise credit protection unavailable to any other creditor, especially since it could put the FDIC in a worse position.

Conclusion

In conclusion, we continue to support a merger of the FDIC's two insurance funds, which would strengthen the deposit insurance system by increasing its risk diversification and ensuring that premium disparities between institutions with equivalent risks do not arise again. We believe that Congress should proceed to merge the funds without incorporating other, more problematic changes to the deposit insurance system.

[6] 12 U.S.C. 1430(e)

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EMBARGOED UNTIL 1:30 P.M. EST
Text as Prepared for Delivery
February 16, 2000

TREASURY UNDER SECRETARY TIMOTHY GEITHNER TESTIMONY BEFORE THE HOUSE SUBCOMMITTEE ON ASIA AND THE PACIFIC

Introduction:

Thank you for giving me the opportunity today to offer the perspective of the Treasury Department on U.S. policy toward Indonesia.

Indonesia's future is critical to the stability and prosperity of Southeast Asia and the region as a whole. The United States has a major stake in the success of the political transition now underway and in seeing the foundation laid for a strong and durable economic recovery.

I will focus my remarks on three subjects:

- The sources of the economic recovery underway in the region and what lessons this holds for policy makers in Indonesia.
- A review of the major economic policy challenges facing the new Indonesian government.
- The broad strategy we have adopted to support recovery in Indonesia.

Sources of Recovery in Asia

Your hearing takes place in the context of a remarkable improvement in economic and financial prospects for emerging Asia as a whole.

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- Growth across the region has recovered more rapidly than expected, with most economies in the region estimated to have expanded at a rate of 4 to 9 percent in 1999.

- With the restoration of investor confidence, currencies have stabilized, and interest rate spreads over U.S. securities have approached pre-crisis levels (and in some cases fallen below).

- The process of repairing financial systems has begun, and corporate restructuring is underway.

- Current account surpluses are adjusting to more moderate levels as domestic demand strengthens.

These improvements came from a complex and varied mix of factors across countries. But the dominant lesson of the financial crises of the last several years is that countries that react rapidly with strong, credible stabilization and reform programs are likely to fare better than those that find it difficult to do so.

In Asia, the common elements of success were:

- The development and implementation of a sound framework for monetary and fiscal policies that gave investors the confidence necessary to stabilize exchange rates.

- Rapid implementation of a credible plan to restructure the financial and corporate sectors so that the overhang of debt could be lifted and private sector lending and growth could resume.

- Early progress toward creating the right legal and regulatory infrastructure for private investment and growth (especially a functioning and credible legal system that protects property rights and a working insolvency regime), and improved transparency by regulatory agencies, corporations and financial institutions.

- Commitment to openness to trade and foreign capital.

- Political leadership that inspires confidence, at home and in global financial markets, in its commitment and its capacity to get things done.

Where these conditions were satisfied, the financial support and advice provided by the international institutions were remarkably effective in generating positive economic results. Where they were not, or where a positive commitment on paper was overwhelmed by political uncertainty or undermined by political constraints on implementation, the crisis was much deeper and more protracted and recovery much more difficult to establish. This is, in a sense, the story of Indonesia since the fall of 1997.

Indonesia's Economic Challenges

Indonesia has taken some important steps to lay the foundation for economic recovery.

The macroeconomic environment has stabilized, and output has begun to expand again. After the deep declines of 1998 and early 1999, the economy is expected to expand at an estimated 1.8% annual rate in FY1999 (ends March 31), and the government expects it to grow 3 – 4% in FY2000. Inflation has been reduced sharply to near zero, from a high of more than 75% in late 1998. Nominal interest rates have fallen dramatically, with the yield on one-month central bank certificates now only 11% (down from around 65% in late 1998). Real interest rates have also declined from their peak in mid 1999. The rupiah has strengthened significantly from the depths of the crisis, though it is still estimated to be about 25% below the pre-crisis level in real trade-weighted terms.

The new government has adopted a new framework for economic policy, with the support of the IMF, World Bank and Asian Development Bank, which holds the prospect of maintaining macroeconomic stability and creating greater confidence among domestic and foreign investors. On February 4, the IMF Board of Directors, with U.S. support, approved a new three-year program for Indonesia. Now, Indonesia must focus on implementation of its policy agenda.

In our view, Indonesia faces four main economic challenges.

1. The Macroeconomic Dimensions of Growth

Indonesia can take considerable comfort in the progress achieved in stabilizing inflation, the recovery in the exchange rate, and the fall in interest rates.

Going forward, Indonesia faces a difficult balance between the near-term need to stimulate the economy, invest in social programs and recapitalize the banking system, and the longer term challenge of reducing public debt and reducing dependence on foreign official assistance.

In the economic program outlined in the agreement with the IMF, the government decided to avoid a further expansion in the fiscal deficit (targeted in the program at nearly five- percent of GDP for FY2000). With ambitious targets for government asset sales and privatization of state-owned enterprises, the government hopes to begin to reduce the large public debt burden.

Over the medium term, once the recovery is more firmly established, the government will have to put in place a credible program for reducing the public debt burden further, and as it moves toward fiscal decentralization, will have to ensure that the transfer of fiscal resources to the regions is accompanied by a commensurate transfer of responsibilities and capacity.

In this context, it is critically important that the government commit to preserve the independence of the central bank, whose policies have been responsible for much of the return to stability.

The government's macroeconomic framework is designed so that, by the end of the IMF program, Indonesia would no longer need exceptional balance of payments support or further debt rescheduling.

2. Financial Sector and Corporate Sector Restructuring

Economic growth will not recover with any strength in Indonesia without a recovery in private sector activity. A recovery in private investment now depends critically on progress toward repairing the financial sector and restructuring insolvent banks and corporations.

The Indonesian government's efforts to restructure, recapitalize, and privatize both the state-owned and nationalized banks (which together now account for about 70% of banking system liabilities) have been painfully slow and inadequate. The Indonesian Bank Restructuring Agency (IBRA), which now holds assets amounting to roughly 50% of GDP, has made alarmingly little progress in recovering non-performing loans and disposing of the assets that it now holds. Restructuring has been hampered by private debtors' belief that they ultimately will not be forced to pay, foreign banks' reluctance to invest due to concerns about transparency and governance, and political pressure on IBRA not to write down or collect on claims. Restructuring delays have severely impeded the growth of bank credit and added to the government's fiscal costs and already high debt burden.

Financial and corporate sector restructuring is the central focus of the government's program with the IMF. The program outlines several priorities for the financial sector: first, restructuring and privatization of state-controlled banks, which the Indonesian government committed to begin before the end of March; second, improving supervision and governance in the banking sector; third, minimizing the public cost of the remaining recapitalization; and fourth, deepening bond and equity markets, which will provide alternatives to bank finance.

On the corporate debt restructuring side, the IMF program calls for: stronger powers for IBRA, able to restructure debt without political interference, and mandated to send recalcitrant debtors to bankruptcy court; better implementation of the bankruptcy law, so that the threat of bankruptcy proceedings provides troubled debtors with a real incentive to restructure debt with creditors; and measures to combat corruption in the judiciary, including stepped-up investigation of bankruptcy judges suspected of corruption.

3. Bolstering Transparency and the Rule of Law

The challenge of creating a legal system that allows creditors to enforce their rights, permits the bankruptcy regime to work, and provides a mechanism to begin to unravel the legacy of corruption this government inherited is essential to recovery in Indonesia.

This is why the work of the newly appointed Indonesian Attorney General is so important to the success of the economic program. This is why the U.S. and other countries, working with the international financial institutions, made judicial reform a centerpiece of the recent consultative group meeting of donors.

Foreign investment and domestic flight capital are unlikely to return to Indonesia in the amount necessary to finance future growth until investors are more confident that they will be treated fairly by the legal system, that they will be protected from discrimination, and that they will be safe from the selective assignment of privileged economic rights that prevailed under the Suharto regime. This confidence is critical to an effective process of unwinding the complex interests tied up in the claims now held by the government.

The IMF program outlines measures for greater transparency in many areas, including fiscal management (both in central and regional governments), the operations of the central bank, the judicial system, and commercial bank and corporate governance (including accountability and disclosure standards).

The IMF LOI includes a strong commitment to audit the Indonesian military, including extra-budgetary sources of income, and to report findings to civilian authorities. The Indonesian Coordinating Minister for Economics and Industry, Kwik Kian Gie, has assured us that the audit has begun and will be completed by August 31.

The LOI also contains commitments to speed up the resolution of disputes with independent power producers (IPPs). The new government has committed to become directly involved in accelerating negotiations between the state power company and the IPPs and has already taken the step of replacing the state power company's management, and ensuring that various lawsuits against several IPPs were dropped.

The new government has moved to address one of the most conspicuous recent examples of public corruption in the Bank Bali case. An independent investigation of the scandal by was undertaken by PriceWaterhouseCoopers (PWC) and released publicly by the Indonesian government in October. The Indonesian attorney general took up the investigation where PWC left off and has committed to follow through on the investigation. The attorney general has named several suspects, including a former cabinet minister.

4. Investing in Human Capital

Delivering a more substantial and broad-based improvement in the economic welfare of Indonesians is a fourth important challenge for the new government. A broad majority of Indonesians will not support the economic reform program unless they believe that it will bring about a tangible improvement in their welfare. In an increasingly constrained budgetary environment, given the costs of resuscitating the banking sector, it will be vital to ensure that social investments are better targeted to the people who need them most. This means:

- Building on past successes in community-based provision of basic social services, with greater decentralization and transparency and wider participation to command credibility and popular trust.

- Maintaining and extending the impressive efforts that have been made to keep children in school through the crisis -- an investment that will pay off many times over in faster growth and greater social cohesion in the years to come.

- Focussing on greater and more effective provision of critical health services -- particularly basic preventive care.

In the area of labor conditions, Indonesia has made considerable progress during the past year in affording its workers rights of association and collective bargaining. Partly in response to the urging of the United States and the IMF, Indonesia ratified ILO Convention 87 (Freedom of Association) in 1998. During 1999 Indonesia ratified ILO Conventions 105 (abolition of forced labor), 111 (employment discrimination), and 138 (child labor), becoming the first East Asian country to ratify all seven of the core ILO conventions. We have been informed that Indonesia intends to introduce new labor legislation by October of this year, which would bring its laws into conformance with the ILO conventions.

An Agenda for Immediate Action

Our hope is that the new Indonesian government will move quickly to take advantage of its electoral mandate, and the broad political support in favor of economic reform, to move quickly to implement the new program. Among the most important steps the new government could take to establish its credibility with its citizens and with investors are:

- Demonstrating that officials of IBRA, Bank Indonesia, and other economic agencies can carry out their official duties without fear of inordinate political interference or constraints.

- Indicating the government intends to get out of the banking business, by transferring controlling shares of government-owned banks to the private sector. An important step will be IBRA's sale of shares in Bank Central Asia (BCA), which is expected before end-March.

- Replacing management responsible for the large losses of state-owned banks.

- Demonstrating progress on disposal of assets by IBRA, even where this means writing down debt. An important indicator will be the planned sale of IBRA's stake in the leading Indonesian vehicle maker Astra International. This would be a significant step toward meeting IBRA's key end-March asset sales target.

- Sending a clear signal to large debtors that unless they cooperate, they will be prosecuted and their assets seized. Specifically, IBRA needs to pursue high-profile recalcitrant debtors through the insolvency system.

- Demonstrating a willingness to see foreign investors as part of the solution to Indonesia's corporate and financial sector debt problems -- and not part of the problem -- through the sale of a substantial stake in a large Indonesian corporation or bank to foreign investors. As is has been true elsewhere in Asia, foreign banks could be an important source of support for financial sector modernization in Indonesia, not only as sources of needed capital but greater financial resilience in the future.

- Investigating and prosecuting judges who have engaged in corrupt practices. The word must go out that in a new Indonesia, no one is above the law and the laws will be fairly enforced.

Conclusion

The United States and the international community should be prepared to help Indonesia with its ambitious reform agenda. On the economic and financial front, we can be most effective in the following areas:

- Supporting an adequate scale of official finance in this period of economic distress and transition. The new IMF supported program approved earlier this month will provide approximately $5 billion in financing -- dependent on continued and forceful implementation of conditions -- over the next three years. The World Bank and Asian Development Bank together have about $7.8 billion in already-approved loans in the pipeline that have yet to be disbursed.

- Focusing the international financial institutions on the core challenges facing the new government, with reforms concentrated on those steps necessary to restore an environment conducive to private enterprise and new investment, an adequate safety net with important investments in health and education, and growth oriented macroeconomic policies.

- Supporting an appropriate breathing space on external debt service, including a rescheduling of Paris Club obligations. We have signaled that we are ready to work with other Paris Club creditors to achieve a further rescheduling of Indonesia's obligations. This would provide another two years of relief to strengthen the government's capacity to carry through with its economic policy agenda.

- Providing an expanded program of technical assistance, in cooperation with State, AID and other agencies, targeted toward public debt management, fiscal decentralization, financial and corporate restructuring, and law enforcement.

Indonesia's most pressing economic challenges are in many ways more political than economic. Progress depends critically on the political capacity of the government to act.

The new government has outlined a credible program of political change and economic reform. Combined with the general improvement in the economic environment in Asia and the world economy as a whole, this creates the potential for substantial and enduring improvement in economic conditions for the people of this important nation.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR IMMEDIATE RELEASE
February 16, 2000

STATEMENT BY TREASURY DEPUTY SECRETARY STUART E. EIZENSTAT

Deputy Secretary Stuart E. Eizenstat praised the International Commission on Holocaust Era Insurance Claims (ICHEIC) for its announcement today that it is initiating the claims process for unpaid insurance that date from the Nazi era.

Mr. Eizenstat said, "The announcement today that the ICHEIC is beginning a massive, world-wide outreach program to identify those with unpaid insurance claims that date to the Nazi era represents the latest tangible evidence of the renewed commitment, of both governments and the international business community, to seek justice for Holocaust survivors and their families."

In particular, Mr. Eizenstat praised the role of former Secretary of State Eagleburger who serves as ICHEIC Chairman.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR IMMEDIATE RELEASE
Text as Prepared for Delivery
February 16, 2000

TREASURY DEPUTY SECRETARY STUART E. EIZENSTAT
REMARKS BEFORE THE BUNDESTAG COMMITTEE ON DOMESTIC AFFAIRS
BERLIN, GERMANY

I want to thank you for inviting me to testify before this committee today. Although I have tried to make my statement comprehensive, I hope you will permit me to supplement this statement at a later time should there be additional points which need to be raised.

I want to start by commending Germany for its efforts on this truly historic initiative. For the past fifty years, Germany has set an example for the rest of the world on how to deal with a horrific aspect of its past. Despite having provided more than 100 billion Deutsch Marks in compensation to victims of Nazi persecution and having proposed to cut some 30 billion Deutsch Marks from the government's budget, your government was willing to provide 5 billion Deutsch Marks to a Foundation that should be viewed as a culmination to Germany's efforts to deal with its past. This is truly remarkable. The fact that the overwhelming majority of German citizens support this initiative, despite the fact that the government is attempting to reduce drastically the budget, is also truly extraordinary.

At the historic December 17 announcement in Berlin of the German Government's and German companies commitment to contribute a total of DM 10 billion to the Foundation, Count Lambsdorff and I both pointed out that there were a number of implementation issues that needed to be addressed before any funds could be distributed. One of the most significant of these, and one that all of the participants have been focusing on since Berlin, is the German legislation that is necessary to establish the Foundation.

We fully recognize and respect the constitutional role of the Bundestag and understand that it is your prerogative to approve the legislation. I am particularly grateful for this opportunity to testify before you and recognize just how unusual it is to have a foreign government official testify concerning domestic legislation. I appreciate the government's willingness to share its draft legislation for comment by the victims' representatives and the United States Government, as well as your openness. This is more than a courtesy. It is a

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recognition of the moral dimension of our common efforts. But it is also essential if there is to be legal peace for German companies.

This is not an ordinary piece of legislation, however. As you begin your review, I know that you will appreciate the unique nature of this legislation and will view this historic initiative in the proper context. For almost one year, the United States Government, the German Government, the Governments of Israel, Belarus, the Czech Republic, Poland, Russia, and Ukraine, as well as representatives of German companies and victims' groups, have engaged in extensive discussions on a "bracketed text," a document that was to set the parameters of the Foundation Initiative of the German Economy, initially to be established as a charitable foundation. Members of the Bundestag attended each of the plenary sessions, and I am sure that you have a good appreciation of this.

This negotiation was a carefully balanced process in which every effort was made to recognize the interests of all the participants. It resulted in a document that reflected a series of compromises that are necessary for everyone to accomplish what we all want accomplished. Now that the German Government and the German companies have agreed on a unified Foundation, the Foundation will be established instead by a public law. It is critical that those compromises be reflected in the public law.

I want to note how important is was that members of all five of the parties represented in the Bundestag could participate in all of the plenary meetings, including the most recent Washington plenary. These members have had the opportunity to hear first hand the views of the different participants interested in the draft legislation. All of the victims' groups made it clear to the Parliamentarians that the legislation needs to reflect the compromises and agreements that were reached during the many months of discussions of the substantive issues. If it fails to do so, it is unlikely that the plaintiffs' lawyers will in fact agree to dismiss their cases or that the U.S. Government can provide the breadth of legal peace the German companies desire and deserve.

I believe the German government fully recognizes the importance of passing legislation that the victim groups and the United States Government can support as faithful to our negotiations, and that it recognizes the importance of creating a structure and a process that, once enacted, can allow the legal peace German industry seeks. For this same reason, it is important that the Bundestag approve legislation that can be supported by all the parties to this process.

As you know, the early drafts of the legislation proposed for submission to the Bundestag by the German cabinet contained provisions over which a number of victims' representatives, as well as my government, expressed grave concern. We believed they did not accurately reflect the results of our prior negotiations. At the recent January 31-February 1 plenary session in Washington, we had a very productive discussion of these concerns. Bundestag members participated actively. I am very gratified that the German government has reaffirmed its intention to revisit these provisions in light of our discussion.

I want to use today's hearing to provide you with what we believe has been agreed to by all of the participants and our views as to what would need to be included in the legislation in order for this historic initiative to be successful. Again, we fully recognize that it is the Bundestag that will determine the final shape of the legislation. But it would be highly unproductive to pass legislation that could not lead to the legal peace which is essential for the German Foundation Initiative to succeed. Before I begin discussing the legislation, however, I want to note that the DM 10 billion capped amount has been agreed to by all of the participants and nothing I will say would increase the obligation of either the German Government or German companies by one pfennig or reopen any issues closed over the years since the end of the Second World War.

One issue we resolved in the recent negotiations in Washington concerned offsets -- whether the payments by the Foundation should be offset by payments previously made under German government compensation programs. The most recent draft of the legislation provided that there should be offsets for prior BEG and other government payments. In response to the unanimous concern expressed by the victims' groups that such offsets did not reflect the agreements reached during the previous nine months of negotiations, the German Government agreed to remove this provision. All parties now agree there will be no offsets, except for payments victims have already received from the companies, either directly or through third parties, for which they performed slave and forced labor. Your government's responsiveness to the legitimate concerns of the victims' groups should be praised, and I hope you will reflect that result in the legislation. We hope that this spirit of cooperation continues as all of the participants work to make this historic initiative a reality.

I. Scope

One of the seminal elements to this process has been the legitimate demand from German companies that, in return for their participation in funding a German Foundation, they receive legal peace in U.S. courts from pending and future lawsuits arising out of the Nazi era. One of the major breakthroughs in our negotiations occurred when we reached agreement with the German companies on the mechanism for achieving such peace. This would involve the named plaintiffs voluntarily dismissing their cases and the United States Government filing "Statements of Interest" in current and future cases, consensual and non-consensual, against German companies involving Nazi era acts. This Statement would provide that the Foundation should be regarded as the exclusive remedy for claims against German companies arising out of the Nazi era and that dismissal of such cases would be in the foreign policy interest of the United States. While under this mechanism, German companies will not be "immune" from suits in the United States, the fact that the United States Government will file a Statement of Interest in all cases brought against German companies, asserting that dismissal of such cases would be in its foreign policy interest will, we expect, contribute to the legal peace we all desire.

From the beginning, the German companies have insisted that the United States file statements of interest in all cases. From the beginning, we have said that in order for the United States to do so the Foundation would have to provide a potential remedy in all such cases. This includes providing a potential remedy for any claimant, whether an individual or legal person, and for any type of claim, including for property damage or personal injury. In short, the breadth of legal peace achievable is coterminus with the breadth of potential claimants who can utilize the Foundation - otherwise it is not the "exclusive" remedy - all within the DM 10 billion capped amount.

In order to satisfy the concerns of their clients, the German companies' own attorneys suggested, and all the victims' representatives agreed, the idea of including a "catch-all" clause which would provide a potential remedy for all cases not explicitly covered by other sections of the legislation. They and we agree that there are multiple protections that will prevent this catch-all from undermining the other purposes of the Foundation, such as the overall cap and the subcap for this catch-all provision and the ability of the Foundation Board to deny claims given prior treaties and agreements. Under the current draft, while Section 11's so-called "opening clause" allows payments for all personal injury claims, including medical experimentation and *Kinderheim* cases, no similar catch-all exists for property-related claims. Currently, the Foundation covers only a partial subset of racially-motivated property claims, but fails to cover other property claims where German companies were directly involved - even though German companies support their inclusion so they can achieve comprehensive legal peace.

An important part of ensuring that the Foundation provide a potential remedy for all types of claims against German companies so that the United States can file its Statement of Interest in all such cases is that all claimants, including individuals, legal persons, and all legal heirs, have the right to present their claim to the Foundation.

The most recent draft provides that only individuals are eligible for benefits from the Foundation. Thus, legal persons, such as victims' organizations would be precluded from filing a claim with the Foundation. We are told that in at least one of the current lawsuits the plaintiff is not an individual, but rather an organization. In order for us to file a Statement of Interest in this and all cases involving legal persons, as the companies insist, the Foundation would have to allow both individuals and legal persons with a potential remedy.

In addition, Section 13 of the current draft limits the heirs who are eligible to receive payments for property damage to surviving spouse and children. There is currently a case pending against German banks in which the plaintiff is the legal heir of the original owner of the property. The original owner had never married. Not only would it be patently unfair to exclude this and other legal heirs from receiving a payment for property damage, but if this limitation is maintained, the United States would not be able to file Statements of Interest in cases for property damage where the plaintiff is a legal heir, but neither a surviving spouse nor child.

In my meetings with Count Lambsdorff last week, we once again proposed that a "catch-all," such as the German companies support, be added to the draft to cover these cases and any others. In addition to covering all racially-motivated property claims, Category C would be expanded to cover all other claims submitted by those who believe they suffered injustices during the Nazi-era where German companies were directly involved, not otherwise covered by the Foundation law. One of the issues that was discussed at length was the need to allocate a separate amount of the DM 10 billion for property claims (Category C) and to create a mechanism to rule on such claims. It was agreed that the Claims Conference and the plaintiffs' attorneys would have to reach agreement on how the amount allocated to deal with property issues would be split between a humanitarian and claims portion. It is understood that the mechanism to address these claims would be outside the Foundation. On Monday I had a very productive discussion with the Claims Conference and the plaintiffs' attorneys concerning how such a mechanism might be structured. In addition to further developing ideas for this mechanism, we need to ensure that all property claims against German companies and other claims against German companies not covered by other provisions of the law are covered by this category.

We are aware that elements within the German Government have rejected the notion of allowing the Foundation to address non-racial property claims. Frankly, this is a mistake. We hope that this decision will be reviewed and reversed by the German Cabinet. The German Government believes these are really reparations claims and that the issue of reparations is closed. The issue of reparations is sensitive, and I do not believe a debate on that issue will be productive. What I can say -- and what I have assured your government -- is that we have no intention of allowing the Foundation legislation to affect the wording or interpretation of any pre-existing treaty. We have proposed the following language to make this clear, which could be included in the Executive Agreement:

> Recognizing that unilateral declarations as well as bilateral and multilateral treaties and agreements, which were intended to deal with the consequences of the Second World War and the Nazi-era, including reparations issues, shall not be affected in their wording and existing interpretation by the Executive Agreement or the Foundation Law and that it is not intended to affect any issue which might have been treated by such documents, including reparations issues.

We received initial positive reaction from Count Lambsdorff last week, but await a formal response.

We understand, however, that the German Government would like us to go further. We are therefore reviewing whether we can provide any additional assurances to the German Government regarding any reparations claims against it. This, however, will not dispense for the need for inclusion of a catch-all as outlined above. I want to make clear that the language concerning reparations and any additional steps we might consider taking are only offered in connection with the inclusion of a comprehensive catch-all. Such claims against German companies that would be covered under this catch-all are highly unlikely. In fact, we do not believe any of the cases currently pending against German companies concern non-racial property claims. Moreover, the inclusion of such a catch-all adds no additional cost to anyone -- government or companies.

Let me stress again one essential point. United States has no independent interest in the Foundation covering non-racial property claims. We understand and sympathize with your reasons for not wanting to do so. This issue only arises because of the companies' demand that the Foundation lead to universal legal peace. The United States has no objection to excluding non-racial property claims from the scope of the Foundation so long as it is clear that the U.S. will not file Statements of Interest in cases asserting such claims in U.S. courts, either in the cases currently pending or in the future.

II. Eligibility/Payment Criteria

At our last plenary in Washington, Count Lambsdorff confirmed to us that the current provisions in the draft legislation on allocation are in some respects a place holder. If the parties to the negotiations can reach agreement on allocation amounts and rules, he told us, the German Government is willing to ask you to put that agreement into the law. This week I had several productive discussions with various groups on allocation and we hope to continue those tomorrow during the plenary. I found a great amount of agreement among victims' representatives. I hope that we can reach an agreement soon on this very sensitive issue and that such agreement can be incorporated into the law. A number of items, however, can be addressed now.

During our nine-months of negotiations on the bracketed text, a number of agreements were reached concerning the eligibility and payment criteria. It is important that these are reflected in the legislation. First, there was broad agreement that while the partner organizations should be given discretion to vary the per capita payments to Category B beneficiaries, all Category A beneficiaries should receive the same amount. It is very important to the victims' groups that the law require that all Category A laborers receive the same amount. The current draft provides that Category A beneficiaries may receive up to DM 15,000. Acquiescing to this request of all of the victims' groups would have no effect on the exposure of either the German Government or companies. Therefore, we hope that the legislation can take into consideration this consensus.

Second, in our last plenary session in Washington it was agreed that payments to those victims who suffered separate wrongs should not be limited to a fixed amount. The draft should make clear that one's ability to receive payment under Category A will not have an impact on the amount of money the claimant can receive under Category C. The current draft provides that if someone was a slave laborer and suffered property damage would be allowed to receive only DM 15,000 in total. This should be revised to reflect the agreement reached at our last plenary in Washington.

Third, there was general agreement that, recognizing the consensus that the vast majority of the Foundation funds should be used to be living victims, any funds allocated for labor or property claims that are not used should not flow to the Future Fund. Rather, these unused funds should be redistributed to the different partner organizations for distribution to survivors. In addition, funds not needed by one partner organization should be made available to other partner organizations to meet any shortfalls. The current draft provides that the Board of Trustees shall decide on the use of all unused funds. However, because there is general consensus that these unused funds should, in the first instance, flow to survivors, it does not seem necessary to postpone this decision for the Board to make.

Fourth, all of the victims' groups believe that there needs to be a separate sub-allocation for non-labor related personal injury cases, such as cases involving medical experimentation and *Kinderheim* cases. We agree. The draft currently combines these cases in the so-called "opening clause" in Section 11, which allows the partner organizations the discretion to make payments to relocated and agricultural forced workers. This would not require allocating any additional funds to those to be distributed to partner organizations. Rather, it would simply set aside an amount in each partner organization's allocation to be used for non-labor personal injury cases. Any funds allocated for these personal injury cases, but not used, could then be used for Category B distributions. It is important to keep this separate so as not to risk dilution of funds allocated for forced laborers in the event of an unanticipated number of miscellaneous personal injury claims.

III. Definition of German companies

It is important that close attention is paid to the definition of "German companies" in the legislation, as, among other things, this could have an impact on which companies benefit from the Statement of Interest we would be committing to file in our Statements of Interest. The current definition in the draft provides that German companies are "all companies headquartered in the territory of the German Reich in its 1937 borders as well as their parent companies and subsidiaries, even if they were located outside of Germany," as well as those enterprises in which German companies hold or have held at least a 25% interest. This current definition is problematic. None of the victims' groups support such a broad definition.

From the beginning of this process the concept has been that the German Foundation Initiative is a German project, involving the German Government and German companies. Thus, we had only contemplated committing to file Statements of Interest in cases brought against German companies, that is those headquartered in Germany, as well as against their foreign subsidiaries if sued for the same acts. We had not anticipated filing Statements of Interest in cases being brought against foreign parents of German subsidiaries, for example Ford, which is not participating in the German Foundation Initiative.

Recently, however, the German Government and German companies have pressed us to broaden our commitment so that foreign parents of German companies would benefit from our Statement of Interest. We have taken this issue under review and are currently considering whether to commit to file a Statement of Interest where a U.S. parent is being sued exclusively for acts committed by its German subsidiary. In any event, we would <u>not</u> contemplate filing our Statement of Interest in cases against U.S. companies for Nazi-era activities <u>not</u> involving activities in Germany of its German subsidiary. It is important that the definition mirror the commitment the United States is able to make with respect to filing its Statement of Interest and that once we work out our position on this issue conforming changes would need to be made in the legislation.

As the Bundestag takes the legislation under review, it is important to note that one of the conditions the victims' groups insisted upon when they accepted the DM 10 billion capped amount was that this would not include any contributions made by United States parent companies. Some United States parent companies have expressed interest in contributing to a mirror fund in the United States. Any funds contributed separately by United States companies would not go to the German Foundation, and thereby reduce the German companies' DM 5 billion obligation. Rather, U.S. companies would contribute to their own fund in the United States. It is very important that we not dilute potential additional contributions. The DM 5 billion must come exclusively from German companies. Non-German contributions should be above and beyond that amount.

In addition, we have received information that suggests that under German law, 25% stock ownership, or even 50% or more stock ownership, does not provide "control" over a foreign company. We understand that at least one company that has majority ownership of another German insurance company is resisting joining the International Commission for Holocaust Era Insurance Claims, which I will discuss in greater detail shortly, because it claims such ownership does not provide it with "control" over its subsidiary's policy. Again, we believe this is a German project, and therefore, to the extent foreign subsidiaries are included in the definition, it should be only those subsidiaries actually controlled by a German company, not just those that happen to have partial German ownership. It may be that the best measure of such "control" is whole ownership.

IV. <u>Banking/property claims</u>

As I noted previously, during our recent plenary in Washington we discussed the need to allocate a separate amount for property claims, within the DM 10 billion capped amount and to create a mechanism to rule on such claims. This mechanism, which would fall outside the Foundation, would need to receive and process all non-insurance property claims against German companies. There was general agreement that the division of money between property claims and humanitarian funds will need to be agreed upon by the various victims' groups.

With respect to the mechanism to address non-insurance property claims, we intend to work closely with those interested in this issue, and would hope that the legislation could be conformed to reflect the agreements that are reached.

We have had extensive discussions with the German Government concerning the broadening of the scope of Category C. It currently covers only a sub-set of racially-motivated property claims, mainly claims by those living in Central and Eastern Europe. We share the views of all of the victims' groups that it needs to be extended to include all racially-motivated property claims, as well as other claims not otherwise covered by the Foundation as determined by the panel charged with receiving and processing these claims. We recognize that the extensive German Indemnification Laws provided compensation or restitution to the vast majority of those who suffered property damage during the Nazi era and do not suggest that the Foundation should reopen these cases. It is our view that all claims that were or could have been addressed under the extensive German Indemnification Laws are barred, except under special circumstances to be determined by the panel. Although the German Government has rejected the notion of broadening the coverage of Category C to cover, among other things, all racially-motivated property claims, we hope that this decision can be reconsidered by the German Cabinet.

I have already discussed a number of the other outstanding issues concerning property issues in the context of the scope of the Foundation. I would like to note one more: the victims' groups have unanimously criticized the provision in the current German draft which places a DM 15,000 per capita cap on Category C payments. We share the victims' groups concerns. There simply should not be a per capita claim cap on these payments. Those who have brought cases against German companies alleging damage to property will never not agree to dismiss their suit in favor of a process in which their ability to recover is so limited. They recognize, however, that they should only be able to receive a pro-rata recovery up to a sub-cap for this type of claim. We and the victims' groups support a scheme whereby if the awards approved by the Category C panel exceed the amount allocated for property claims then the awards should be pro-rated within this sub-cap.

We hope that, since this proposal is supported by the vast majority of victims' representatives, and would not increase the exposure of the German Government and companies, that it will be looked upon favorably and incorporated in the legislation.

V. Composition of the Board of Trustees

The victims' groups have asked that victims' representatives and survivors themselves be adequately represented in the composition of the Board of Trustees. In addition, there is some concern that other groups which have not participated in the discussions are not adequately represented. We recognize that it would be very difficult to increase the size of the Board, without diminishing its ability to be a timely decision-making body. In order to address these concerns, we have the following recommendations.

First, the current proposal provides that the United States Government would appoint an attorney to the Board. We suggest that the group of plaintiffs' attorneys that has participated in this process, rather than the United States Government, appoint such an attorney to the Board.

Second, we suggest that the legislation establish two advisory committees -- a Lawyers' Committee and a Victims' Committee. These five person committees, whose members would serve in a voluntary capacity, would report directly to the Board of Directors. In order to address the attorneys' concerns that they are not adequately represented in the decision-making apparatus of the Foundation, this Committee should fairly represent the lawyers who have participated in the Foundation discussions. The Victims' Committee could consist of at least two members of groups that do not have representation on the Board of Trustees and at least two survivors.

Third, the Chairman of the Board appointed by the Chancellor should be a person of international stature, with relevant international experience. During the negotiations there was unanimous support for this idea.

Finally, the legislation should provide that at least one of the three members of the Board of Directors should be a victims' representative.

VI. Waiver

One of the more sensitive issues during the entire negotiating process has been the scope of the waiver a claimant must sign in return for receiving payment from Foundation funds. There was agreement reached in Washington two weeks ago that no beneficiary under the Foundation should be required to waive entitlement to any government payment, for example, BEG or social security, in order to receive a payment from the Foundation. Once again, I applaud your government for agreeing to revise the current draft which had provided that a successful claimant would in fact have waive such entitlement. Once again, they have responded to the concerns expressed by all of the victims' groups.

There was no agreement reached, however, concerning other aspects of the scope of the waiver. The German Government promised to review this issue in light of the victims' concerns, which we share.

The current draft of the legislation provides that every beneficiary, when making application, "shall declare that by receiving a payment under this law he irrevocably waives any further claim against" both the Government and German companies. Requiring a waiver of such broad scope cannot be justified.

All of the victims' groups believe that the scope of the waiver should mirror the scope of the claim. We share this view. Thus, an applicant should be required to waive only further claims against the German Government or German companies that directly relate to his claim to the Foundation. Therefore, a Category A or Category B applicant should, upon payment, only be required to waive all labor claims against the German Government and German companies, but should not also be required to waive a claim for stolen art or property damage as well. Similarly, a Category C applicant, should only be required to waive further claims concerning the specific property that is the subject of the particular claim and not all labor related claims as well. Thus, a claimant eligible to receive a payment under Category C for an aryanization claim against a bank would not be required to forego the right to pursue a claim against a particular piece of property, such as a painting.

VII. Insurance

Since the announcement of the establishment of the German Foundation Initiative last February 16, we have worked on the assumption that this process would have to be coordinated with the International Commission on Holocaust Insurance Claims (ICHEIC), which had already been established and was designed to address all Holocaust-era insurance claims. While the relationship between the two processes is still being negotiated, I would like to provide the Committee with some background concerning the ICHEIC and a sense of how these two processes will eventually be coordinated.

The U.S. Government has strongly supported the international effort to bring justice to victims of Nazi persecution and is pleased that the ICHEIC is expected to announced the launch of its full-scale claims and outreach program yesterday.

The ICHEIC claims process will use relaxed standards of proof in dealing with outstanding claims from the Holocaust era and will ensure the opening of companies' files, the cross-checking of names with Yad Vashem's records of Holocaust victims, and further research into European archives to find names of potential claimants. The International Commission has tested its claims procedures in a "fast-track" process for existing claims previously submitted to regulators cooperating with the Commission. Substantial progress has been made through this "fast-track" process and has resulted in the payment of a number of existing claims to Holocaust survivors and their heirs.

All claims against German insurance companies brought to the Foundation will be processed under the International Commission's rules and procedures, and according to Section 11 of the draft legislation, the special provisions of the International Commission on Holocaust Era Insurance Claims shall be unaffected. This is an important recognition that ICHEIC will be the exclusive remedy for dealing with insurance claims.

The draft law provides that the DM 10 billion capped amount includes funds to pay insurance claims under ICHEIC, as well as administrative and any pre-paid amounts. The inclusion of this provision must await the outcome of ongoing negotiations in ICHEIC with German insurers. The International Commission's relationship with the German Foundation and the allocation of Foundation funds for insurance are the subjects of ongoing negotiations. However, the German Foundation will have a humanitarian insurance fund that shall be passed through to the International Commission, which shall have responsibility for administering such a fund.

Representatives of both European insurance companies and Jewish organizations have tabled proposals to pay outstanding Holocaust-era German insurance claims, to create a humanitarian fund for nationalized policies, heirless policies and policies against German companies no longer in existence, as well as for social purposes as determined by the ICHEIC. The outcome of these discussions should be reflected in the draft legislation.

The U.S. Government has supported the International Commission on Holocaust Era Insurance Claims since it began, and we believe it should be considered the exclusive remedy for resolving insurance claims from the World War II era. As stated in the MOU signed by the five ICHEIC member companies, those companies cooperating with the Commission deserve "safe haven" from sanctions, subpoenas, and hearings relative to the Holocaust period. I recently wrote to the state insurance commissioners in Washington and California, emphasizing my strong support for the international efforts to create a claims settlement process under the International Commission and stressing that, in their legitimate concern for Holocaust survivors, proposed actions in these states could undermine the work of the ICHEIC.

We have strongly encouraged and will continue to encourage all insurers that issued policies during the Holocaust era to join the International Commission and participate fully in its claims, outreach, and humanitarian programs. The ICHEIC is the best and most expeditious vehicle for resolving insurance claims from this period, and membership in the International Commission provides the only real way of both ensuring that valid claims are paid and resolving international moral and humanitarian responsibilities, i.e., for heirless and nationalized claims or companies no longer in existence.

As it currently stands, with respect to German insurance companies, only those who are beneficiaries of policies with companies participating in the ICHEIC process have a potential remedy outside of litigation. Currently, only Allianz is a member. Efforts need to be undertaken to persuade or require all German insurance companies that issued policies or today own companies that issued policies, to join ICHEIC and participate fully in its programs, including claims, humanitarian fund, public outreach, and audit programs. How can we do justice if people with real claims for real insurance policies have no redress?

We have repeatedly stressed that it is essential that all those who are beneficiaries of insurance policies issued by a German company prior to the end of World War II should have a forum for their claims. In order for the United States to file Statements of Interest in all cases against German insurance companies arising from the Nazi-era, there must be an alternative potential remedy for all those with Nazi-era claims against any German insurer. If the ICHEIC proves unable to attract all German insurers, other methods need to be used to ensure that no policy with a German insurer goes unpaid.

In all of the discussions of the draft texts, all parties assumed claims on insurance policies would be paid over and above the fixed amount agreed upon. We are now told by German companies that claims must be paid within the DM 10 billion. I believe we can use a capped reserve in the Future Fund, inside the DM 10 billion to cover claims written by German companies for the German market. It is not possible, however, to include policies written outside of Germany, for example in Central and Eastern Europe, by non-German subsidiaries of German companies within the DM 10 billion. Why should RAS, an Italian company which wrote policies in Central and Eastern Europe, receive the benefits from this German Foundation, including a Statement of Interest, simply because it was acquired by Allianz in the 1980s?

VIII. <u>Heirs of Forced/Slave Laborers and the Future Fund</u>

One of the major breakthroughs during this complex nine month negotiation was reaching unanimous agreement that heirs of those forced and slave laborers who have perished would not be entitled to direct payments from the Foundation. It was also agreed, however, that the heirs of those forced and slave laborers who died subsequent to the February 16, 1999 announcement of the establishment of the German Foundation Initiative would be eligible for direct payments. All of this was done largely for practical considerations, as the number of such heirs would be in the millions and there would simply not be enough money available to make payments to both survivors and heirs. Instead of receiving direct payments from the Foundation, it was agreed that the Future Fund would "support projects that serve to benefit the heirs." This could include, among other things, educational scholarships for heirs of former forced/slave laborers.

Section 2 of the current draft provides that the Future Fund will "take appropriately into account" heirs. This Section, however, needs to incorporate the language that was agreed to during the negotiations. In order for the plaintiffs' attorneys to dismiss cases brought by heirs and for the United States' Statement of Interest to say that the Future Fund is a fair resolution for heirs, it is imperative that the legislation provide for specific non-compensation benefits for heirs.

The current draft also provides that only the surviving spouse and children of those forced and slave laborers who died on or after February 16, 1999 are entitled to receive payment from Foundation funds. All of the victims' groups believe that the heirs eligible to recover should not be so limited. We share this view. Rather, all legal heirs of those forced and slave laborers who died on or after February 16, 1999 should be entitled to receive payment from Foundation funds. Again, broadening this provision is not only the fair thing to do, but will not increase the exposure of either the German Government or companies.

IX. Miscellaneous

Before concluding, I would like to run through a number of procedural issues concerning the Foundation.

First, decisions by partner organizations will be made using relaxed standards of proof. This needs to be reflected in Section 11(2).

Second, given that the average age of survivors is approaching 80, every effort must be made to distribute the money to the victims as soon as possible. Section 17(2) currently provides that the Foundation shall make funds available to the partner organizations on a quarterly basis. However, this distribution approach should not be followed if it will slow down payments to beneficiaries. If a particular partner organization is able to process all of its claims within the first four months, then it should receive all of the money necessary to pay these claims at that time.

Third, Section 18(1) currently provides that "the Foundation and its partner organizations shall be authorized to solicit authorities and other public institutions such information as is necessary to the fulfillment of their mission." It is important that the Foundation and its partner organizations be authorized to solicit such information from private institutions as well. After all, the vast majority of these cases concern the behavior of German private companies and these companies might have information that would be useful in assisting the partner organizations in making decisions on the submitted claims.

Fourth, in order for the United States to state in its Statement of Interest that the Foundation is a fair and equitable remedy for these claims, it is important that the Foundation and its partner organizations be subject to a annual public audit. Section 8 currently provides that only the Foundation shall be audited.

Fifth, it is important to remember that this Foundation is more than simply about making dignified payments to likely more than one million survivors who suffered under the Nazi regime. It is also designed, through the Future Fund, to educate people around the world about what happened in Germany between 1933 and 1945 so as to ensure that these unspeakable acts are never repeated. It is vitally important that as part of this educational effort German companies archive all of their documents relating to this awful period so as to provide the public with all of the details regarding the activities of German companies during this period. To many of the victims' representative and victims, this archiving of company documents is just as important, and would have a longer-lasting impact, as the billions of deutsch marks that will be distributed to the survivors. A number of German companies have already begun to do so. The legislation should encourage or perhaps even require all to do so.

Sixth, it is critically important that the German companies deposit their DM 5 billion contribution as soon as possible in an interest bearing account. The interest should support the purposes of the Foundation and would be the source used to pay administrative expenses and negotiated legal fees. The legislation should support the agreement we have reached with Count Lambdorff and the companies on this point.

Finally, as you are aware, the Foundation will provide payments to survivors world-wide through partner organizations. Partner organizations have only been identified, however, to cover Jews worldwide and survivors in Belarus, the Czech Republic, Poland, Russia, the Ukraine. Partner organizations to cover the remaining non-Jewish survivors need to be identified as soon as possible. If such organizations are not identified, then the Foundation must be able to provide direct payments to individuals not covered by a partner organization. Section 10, however, currently precludes the Foundation from making payments directly to the beneficiaries. It would quite regrettable if the Foundation is operating, the funds are available, and a beneficiary living in Australia or some other country is unable to receive payment because a partner organization to cover Australia or that country had not been identified and the Foundation could not make the payment directly to the claimant. We understand the concern that such a system might leave the Foundation vulnerable to appeals in the German legal system. However, in order for the German companies to attain the legal peace we all believe the deserve, it is essential that a solution be found.

Conclusion

I have attempted to outline both the various agreements and compromises that have been worked-out during the nine-months of negotiation, which need to be reflected in the legislation.

In addition, I have given you the United States' views on a number of the outstanding issues. In almost every case, our views converge with those of the victims' groups.

It is my sincere hope that as you undertake this historic task of reviewing and approving this unique piece of legislation that you do so bearing in mind that all of the participants in this process need to be able to support the legislation. Otherwise, the plaintiffs' lawyers will not agree to dismiss their cases, the United States will not be able to file its Statement of Interest, over a million survivors will not receive long-awaited dignified payments in recognition of their suffering and the German Government and companies' unprecedented initiative will not become a reality.

Once again, I want to commend your country for undertaking this historic endeavor, one which in addition to providing a measure of justice to many victims of the Nazi era, will further strengthen the already strong U.S.-German relationship. I thank you for giving me this opportunity to address this Committee.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED UNTIL 1:00 PM
AS PREPARED FOR DELIVERY
February 16, 2000

Remarks by Under Secretary of the Treasury for Domestic Finance Gary Gensler
to the Exchequer Club
Washington, D.C.

Good afternoon and thank you for inviting me to speak here today.

The reform of our nation's financial services laws is one of the major achievements of this Administration. Washington has struggled for over two decades to make these changes, and we are proud to have been part of this historic legislation. We now have a tremendous amount of work ahead of us to implement the provisions of the Act. We are working closely with our colleagues at the financial regulatory agencies to make the promise of fewer barriers, more consumer choice, lower costs, and better service a reality.

Even as we work to carry out the many mandates of the statute, new issues and challenges for the financial industry will continue to arise. As new technologies create significant opportunities, they also raise new challenges. This afternoon, I would like to discuss three issues facing the financial services industry that have been raised by new technologies - financial privacy, the use of electronic signatures and records, and computer security.

E-Commerce and the Financial Services Industry

As significant as financial modernization legislation has been for the financial services industry, something more dramatic is facing today's financial institutions. That is the rapid changes brought on by new technology, in particular by the Internet and electronic commerce.

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There may be no part of our economy that is more suited to delivery over the Internet than financial services. Financial services and products are not physical goods. Investments, mortgages, consumer loans, deposits, bill payment, and insurance have no physical form. The stored value and risks they represent are best presented in charts, graphs, and words. The Internet can bring this data to consumers in the comfort of their home. Electronic commerce will most certainly reduce costs, improve efficiency, and increase competition. Consumers of financial services will benefit greatly.

But consumer confidence is critical to achieving the full promise of electronic commerce. E-commerce is still at an early stage of development. The large-scale computer attacks of the last two weeks highlight some of the uncertainties with its growth. In this environment, it is critical that both the government and industry take steps to foster consumer confidence.

Privacy

The first challenge is to protect the privacy of consumers while preserving the benefits of competition and innovation brought about by technology.

Today's ordinary desktop computer is significantly more powerful than the mainframe of thirty years ago. Vast amounts of information can be stored, sorted, manipulated, and analyzed at lower and lower costs. At the same time, the increasing use of credit and debit cards and other electronic means of payments and receipts allows financial services companies to collect a far greater amount of information about its customers. Direct deposit now means that a bank knows not only what you spend, but also how much you earn, and from whom. These trends provide the means and opportunity for financial services firms to mine consumer information for profit.

Today, many Americans increasingly feel their privacy is threatened by those with whom they do business. Americans want the ability to earn, invest, and spend their money without having to expose their lives to those who process their transactions. Just as they would not expect a letter carrier to read their mail or record their correspondents, they do not expect a bank processing a check to record, store, and evaluate their personal behavior.

The question of consumer control over personal information will become more pressing as technological innovation continues. I encourage those of you who work with financial institutions to get out ahead of this issue. Indeed, some institutions already have.

If you have any doubt as to the resonance of this issue with consumers and with lawmakers, just look at how far the debate has moved in the last nine months. When the President outlined his "Financial Privacy and Consumer Protection in the 21st Century" initiative last May, many viewed the proposal as ambitious. Protecting financial privacy led the list of key principles for consumer protection.

The President's recommendations on financial privacy called for legislation providing consumers with notice and choice regarding the use of their financial data -- the right to say "no" to information sharing that they find inappropriate or invasive. Central to this is the idea that one's personal information is not the exclusive property of the institutions that hold it -- that people have a legitimate right to a say in how it is used and distributed.

Only six months later, we made significant progress on these goals in the financial modernization bill. We believe that the requirements for clearly stated privacy policies, for consumer notices and for the right to opt out of third-party information sharing are important advances in privacy protections for all Americans.

Treasury has been pleased to have had a role in the interagency development of privacy rules implementing this statute. This has been a major undertaking, with eight agencies working to issue consistent rules on one of the bill's most complicated and important issues. The timetable has been very tight, but there has been a high level of cooperation among all of those involved in the process. The agencies have taken a balanced approach that minimizes burdens on financial institutions, while providing very effective privacy protection consistent with the statute. The regulators are looking forward to receiving comments from you and, we expect, many others.

As important as the Act and the implementing rules are, this Administration believes that more can be done to protect personal financial privacy. The President has called on Treasury, working with other parts of the Administration, to develop legislation to enhance consumer privacy beyond existing law. These proposals are still in development. We are consulting with industry, consumer groups, and Congress to fulfill the President's mandate.

The additional consumer choice provided in the financial modernization bill was an important step in protecting financial privacy, but consumer choice for sharing with third parties should be a floor, not a ceiling. As the President has indicated, our new proposals will address information sharing within financial conglomerates. We are also looking at a range of other options, again with the desire to find balanced proposals that will both enhance privacy protection and allow financial institutions to provide quality services.

Electronic Signature Legislation

The Administration supports electronic commerce and has been working to promote its development wherever possible. As part of this effort, we need to make sure that our laws keep up with rapidly changing technologies and markets. The application of laws written before the Internet was even an idea can create uncertainty that is not in the interest of either business or consumers. The President has directed every federal agency to conduct a top-to-bottom review to find and eliminate policies, requirements, rules, and regulations that could be a barrier to the growth of electronic commerce. We also have asked the public for their ideas on the subject, and I encourage you to talk to us about your concerns.

At the same time, Congress, working with the Administration, is taking a critical step toward facilitating e-commerce through digital signature legislation. Two digital signature bills, S.761 and H.R.1714, passed their respective Houses last year, and appear to be on their way to conference.

The use of electronic signatures and records could revolutionize the way mortgage and consumer loans, financial accounts and investments, and retirement plans are provided to consumers. These bills would allow any contract that can be entered into in writing to be entered into electronically. We support this move to validate the use of electronic signatures and documents in place of paper.

In addition, the House version would allow for electronic delivery of a broad range of records, disclosures, and notices that are now provided in writing. This, too, could be a very important step forward. We must be careful, however, that as we take this step, we continue to provide the consumer protections that Congress and the states have previously enacted.

Consumer protection laws in the financial services area generally are designed to ensure that consumers are provided with the information they need to make sound financial decisions. They include the Truth-in-Lending Act, Real Estate Settlement Protection Act (RESPA), the Truth-in-Savings Act, the Consumer Leasing Act, and the Electronic Funds Transfer Act. Add to that the provisions of Employee Retirement Income Security Act (ERISA), federal securities laws and state law requirements concerning insurance contracts.

A good digital signature bill will ensure that consumer protections in the electronic world are equivalent to those in the paper world. A bill that promotes both electronic commerce and consumer protection is in everyone's interest. We believe that with some modest, common-sense changes, that goal is well within reach.

Many concerns could be addressed by providing authority to regulatory agencies to interpret the provisions of the legislation. This authority would not allow regulators to contravene the statute, but to provide necessary guidance as to how the legislation would apply in specific contexts. This would not only ensure that adequate consumer protections are maintained, but would also provide financial institutions with much greater legal certainty in conducting business with customers electronically.

Other changes are needed to ensure that consumer consent to electronic notice is truly informed, electronic notices function effectively, that records cannot be altered by either party after a transaction is consummated, and that the bill does not have unintended consequences outside of the realm of business-to-business and business-to-consumer transactions.

We hope that agreement can be reached on important changes that will strengthen consumer confidence in the electronic marketplace. We are looking forward to working with Congress, industry, and consumer groups to produce a win-win bill this year.

Computer Security

The third area I would like to talk about is computer security and defenses. As the financial services industry and the economy increasingly move on-line, we may become more susceptible to disruption. As reported last week, a number of major Internet sites were disrupted for significant periods by a technique known as distributed denial of service. Computer hackers bombarded these sites with bogus requests, effectively blocking access for legitimate users.

Malicious hacking is by no means novel, but last week's events serve as a wake-up call. The sheer numbers of users and the scope of the problem is changing. With more commercial activity being conducted online, an increasing share of our overall economy is potentially subject to disruption. Just as importantly, the means needed to cause economic disruption are easier than ever to come by. Hacking tools are posted freely on the Web, and access is as cheap and as portable as a laptop computer.

That is why in 1998 the President called on federal agencies and the private sector to develop better computer defenses. The first industry to act was the financial services industry. In October 1999, Secretary Summers announced the formation of the financial industry's computer defense center. This effort, led by the private sector, helps some of the largest financial institutions receive advance notice of potential attacks. In fact, as reported in the press, they received warnings concerning the possibility of distributed denial of service attacks before these attacks began. We encourage financial institutions of any size to consider how best to protect themselves against computer attacks and to explore appropriate means of information sharing.

Conclusion

The implementation of the financial modernization legislation and the continuing challenges of evolving technology will have important implications for the shape of the financial services industry in the future. I believe that the now-constant change driving financial services markets will produce -- perhaps sooner than we think -- an industry that looks very different from the one we now know. While there are a lot of uncharted waters ahead of us in this process, I believe that change will ultimately be very good for the industry, consumers, and the economy.

Thank you. I will be happy to take your questions.

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DEPARTMENT OF THE TREASURY

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EMBARGOED UNTIL 2:30 P.M.
February 16, 2000

CONTACT: Office of Financing
202/691-3550

TREASURY TO AUCTION $12,000 MILLION OF 2-YEAR NOTES

The Treasury will auction $12,000 million of 2-year notes to refund $27,053 million of publicly held securities maturing February 29, 2000, and to pay down about $15,053 million.

In addition to the public holdings, Federal Reserve Banks hold $3,219 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 $2,381 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 $636 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.

If the auction of 2-year notes to be held Wednesday, February 23, 2000, results in a yield in a range of 6.250 percent through and including 6.374 percent, the 2-year notes will be considered an additional issue of the outstanding 6-1/4% 5-year notes of Series D-2002 (CUSIP No. 9128272L5) originally issued February 28, 1997. The additional issue of the notes would have the same CUSIP number as the outstanding notes, which are currently outstanding in the amount of $13,800 million.

If the auction results in the issuance of an additional amount of the Series D-2002 notes rather than a new 2-year note, it will be noted on the Treasury auction results press release. In the event of a reopening, all amounts outstanding for CUSIP No. 9128272L5, including the 5-year notes issued February 28, 1997, would be eligible for the STRIPS program.

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LS-403
Attachment

HIGHLIGHTS OF TREASURY OFFERING TO THE PUBLIC OF
2-YEAR NOTES TO BE ISSUED FEBRUARY 29, 2000

February 16, 2000

Offering Amount .... $12,000 million

Description of Offering:
Term and type of security .... 2-year notes
Series S-2002
CUSIP number 912827 6A 5
Auction date .... February 23, 2000
Issue date .... February 29, 2000
Dated date .... February 29, 2000
Maturity date .... February 28, 2002
Interest rate .... Determined based on the highest accepted competitive bid
Yield .... Determined at auction
Interest payment dates .... August 31 and February 28
Minimum bid amount and multiples $1,000
Accrued interest payable by investor ...... None
Premium or discount .... Determined at auction

STRIPS Information:
Minimum amount required .... Determined at auction
Corpus CUSIP number .... 912820 EN 3
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 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

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FOR IMMEDIATE RELEASE
Text as Prepared for Delivery
February 17, 2000

STATEMENT BY TREASURY DEPUTY SECRETARY
STUART E. EIZENSTAT

I came to Berlin this week for two reasons:

- To continue discussions with all the participants at the plenary on the allocation of the 10 billion D-Marks capped amount that we agreed upon at our meetings here in the middle of December; and

- To present to the Bundestag Interior Committee some of the critical provisions that need to be incorporated in the legislation to establish the Foundation.

We made considerable progress during our meetings here over the past two days.

For the first time, all representatives of the victims presented comprehensive proposals for allocating the 10 billion D-Marks. The parties came to Berlin with proposals that were serious, realistic, and not far apart.

We recognize that all parties will have to show flexibility and understanding to reach an agreement. We continue to be committed to a fair and equitable allocation, and we appreciate the German Government's commitment to incorporate an agreement on such an allocation into the legislation establishing the foundation.

Through our discussions, we were able to further narrow our differences so that we are now within striking distance of an agreement on allocation.

The watchword of all the delegations today was "flexibility." Everyone pledged willingness to move away from "red lines" and to seek ways to bridge our increasingly small differences.

Secondly, everyone agreed on the need to accelerate the discussions, recognizing the urgency of the situation, namely that elderly survivors should not continue to be made to wait for the dignified payment they so deserve. We plan to continue our discussions in Washington on March 7 and 8, when I hope we will be able to achieve an agreement on allocation at that session.

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With regard to the German legislation to establish the Foundation, I want to thank the members of the Bundestag Domestic Affairs Committee for inviting me to testify before them yesterday. My written statement is available on Embassy Berlin's web site: *www.usembassy.de*. There are also some hard copies available here today.

As I told the Bundestag yesterday, we commend Germany for its efforts on this truly historic initiative. For the past fifty years, Germany has set an example for the rest of the world on how to deal with a horrific aspect of its past. The German government's willingness to provide 5 billion D-Marks during a period of budget cutting is truly extraordinary. The tremendous support of German citizens is deeply appreciated as well.

My discussion with the Interior Committee was detailed and serious. Committee members demonstrated through their comments their commitment to the Foundation legislation. They recognized that the legislation must reflect the compromises that eight governments, a number of victims' representatives and the German companies have spent nearly a year negotiating in order to achieve the comprehensive legal peace the German companies seek and deserve. The members assured me that they would take account of what we had accomplished. I think all understood that the overarching aim of our talks was to provide a measure of justice for the victims as soon as possible.

Purpose of the Legislation

At its core, the Foundation legislation aims to provide dignified payments to former forced and slave laborers and to others that suffered at the hands of German companies. We seek a foundation with a breadth of coverage that will establish a new direction in the never-ending effort to deal with the consequences of the Holocaust. Dignified payments will be accompanied by provisions that allow German companies to achieve the broadest possible legal peace, thus building a cooperative rather than adversarial basis for the future. Every change I suggested over the past several weeks was to this end. It will do little good to pass legislation that fails to achieve legal peace. I want to note that the 10 billion D-Mark capped amount has been agreed to by all of the participants and nothing I will say would increase the obligation of either the German Government or German companies by one pfennig or reopen any issues closed over the years since the end of the Second World War.

I want to stress that, although we want the Foundation to be as inclusive as possible, we have no intention of allowing the Foundation legislation to affect the wording or interpretation of any pre-existing treaty or agreements, including those dealing with reparations issues.

- I cannot overemphasize the issue and importance of scope.

My testimony touched on a variety of issues important to all of the participants in the negotiations. Allow me to address a few of them now:

HIGHLIGHTS OF TREASURY OFFERINGS OF BILLS
TO BE ISSUED FEBRUARY 24, 2000

February 17, 2000

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 DX 6	912795 EX 5
Auction date	February 22, 2000	February 22, 2000
Issue date	February 24, 2000	February 24, 2000
Maturity date	May 25, 2000	August 24, 2000
Original issue date	May 27, 1999	February 24, 2000
Currently outstanding	$26,944 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.

- First, I stressed that individuals, upon receipt of payment from foundation funds, should be required to waive further claims only with respect to the specific claim that was filed.

- Second, I spoke about insurance, one of the most difficult outstanding issues. We view the International Commission for Holocaust Era Insurance Claims as the best and most expeditious vehicle for resolving claims. I welcome the International Commission's announcement that it began this week its claims process and its massive, worldwide outreach program to identify those with unpaid claims. We need to negotiate the relationship of insurance issues in the German foundation with the International Commission process. Efforts need to be undertaken to persuade or require all German insurance companies that issued policies, or today own companies that issued policies, to join the International Commission and participate fully in its programs, including claims, humanitarian fund, public outreach, and audit programs. How can we do justice if people with real claims for real insurance policies have no redress?

It is also critically important that the German companies deposit their 5 billion D-Mark contribution as soon as possible in an interest bearing account. The interest should support the purposes of the Foundation and would be a source used to pay administrative expenses and negotiated legal fees.

In conclusion, let me reiterate that the progress we made in the last couple of days takes us to within striking distance of an agreement on allocation and some of the other outstanding issues. The only way we can resolve the remaining issues in a speedy fashion, however, is for everyone to continue to approach these discussions with the flexibility and spirit of cooperation that has brought us to the brink of achieving something truly historic.

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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.
February 17, 2000

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 $16,555 million of publicly held securities maturing February 24, 2000, and to raise about $445 million of new cash.

In addition to the public holdings, Federal Reserve Banks for their own accounts hold $7,998 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 $3,859 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 $938 million into the 13-week bill and $785 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

HIGHLIGHTS OF TREASURY OFFERINGS OF BILLS
TO BE ISSUED FEBRUARY 24, 2000

February 17, 2000

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 DX 6	912795 EX 5
Auction date	February 22, 2000	February 22, 2000
Issue date	February 24, 2000	February 24, 2000
Maturity date	May 25, 2000	August 24, 2000
Original issue date	May 27, 1999	February 24, 2000
Currently outstanding	$26,944 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.

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
February 17, 2000

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 69-DAY BILLS

Term:	69-Day Bill
Issue Date:	February 18, 2000
Maturity Date:	April 27, 2000
CUSIP Number:	912795DT5

High Rate: 5.70 % Investment Rate 1/: 5.86 % Price: 98.908

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	$ 56,196,420	$ 30,003,920
Noncompetitive	2,000	2,000
TOTAL	$ 56,198,420	$ 30,005,920

Median rate 5.67 %: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 5.62 %: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 56,198,420 / 30,005,920 = 1.87

1/ Equivalent coupon-issue yield.

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
February 17, 2000

Contact: Peter Hollenbach
(202) 691-3502

BUREAU OF THE PUBLIC DEBT AIDS SAVINGS BONDS OWNERS AFFECTED BY TORNADOES IN GEORGIA

The Bureau of Public Debt took action to assist victims of tornadoes in Georgia by expediting the replacement or payment of United States Savings Bonds for owners in the affected areas. The emergency procedures are effective immediately for paying agents and owners in those areas of Georgia affected by the storms. These procedures will remain in effect through March 31, 2000.

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

Georgia counties involved are Colquitt, Grady, Mitchell and Tift. Should additional counties be declared disaster areas the emergency procedures for savings bonds owners will go into effect for those areas.

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

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PA-439

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

FOR IMMEDIATE RELEASE
February 18, 2000

Contact: Office of Financing
(202) 691-3550

TREASURY'S INFLATION-INDEXED SECURITIES MARCH 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 March 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, (6) the 3-7/8% 30-year bonds due April 15, 2029, and (7) the 4-1/4% 10-year notes due January 15, 2010. 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 405. The information is also available on the Internet at Public Debt's website (http://www.publicdebt.treas.gov).

The information for April is expected to be released on March 17, 2000.

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Attachment

PA-440

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TREASURY INFLATION-INDEXED SECURITIES
Ref CPI and Index Ratios for
March 2000

Security:		3-7/8% 10-Year Notes	3-7/8% 30-Year Bonds	4-1/4% 10-Year Notes	
Description:		Series A-2009	Bonds of April 2029	Series A-2010	
CUSIP Number:		9128274Y5	912810FH6	9128275W8	
Dated Date:		January 15, 1999	April 15, 1999	January 15, 2000	
Original Issue Date:		January 15, 1999	April 15, 1999	January 18, 2000	
Additional Issue Date:		July 15, 1999	October 15, 1999		
Maturity Date:		January 15, 2009	April 15, 2029	January 15, 2010	
Ref CPI on Dated Date:		164.00000	164.39333	168.24516	
Date	**Ref CPI**	**Index Ratio**	**Index Ratio**	**Index Ratio**	
March 1 2000	168.30000	1.02622	1.02376	1.00033	
March 2 2000	168.31290	1.02630	1.02384	1.00040	
March 3 2000	168.32581	1.02638	1.02392	1.00048	
March 4 2000	168.33871	1.02646	1.02400	1.00056	
March 5 2000	168.35161	1.02653	1.02408	1.00063	
March 6 2000	168.36452	1.02661	1.02416	1.00071	
March 7 2000	168.37742	1.02669	1.02424	1.00079	
March 8 2000	168.39032	1.02677	1.02431	1.00086	
March 9 2000	168.40323	1.02685	1.02439	1.00094	
March 10 2000	168.41613	1.02693	1.02447	1.00102	
March 11 2000	168.42903	1.02701	1.02455	1.00109	
March 12 2000	168.44194	1.02709	1.02463	1.00117	
March 13 2000	168.45484	1.02716	1.02471	1.00125	
March 14 2000	168.46774	1.02724	1.02478	1.00132	
March 15 2000	168.48065	1.02732	1.02486	1.00140	
March 16 2000	168.49355	1.02740	1.02494	1.00148	
March 17 2000	168.50645	1.02748	1.02502	1.00155	
March 18 2000	168.51935	1.02756	1.02510	1.00163	
March 19 2000	168.53226	1.02764	1.02518	1.00171	
March 20 2000	168.54516	1.02771	1.02526	1.00178	
March 21 2000	168.55806	1.02779	1.02533	1.00186	
March 22 2000	168.57097	1.02787	1.02541	1.00194	
March 23 2000	168.58387	1.02795	1.02549	1.00201	
March 24 2000	168.59677	1.02803	1.02557	1.00209	
March 25 2000	168.60968	1.02811	1.02565	1.00217	
March 26 2000	168.62258	1.02819	1.02573	1.00224	
March 27 2000	168.63548	1.02827	1.02580	1.00232	
March 28 2000	168.64839	1.02834	1.02588	1.00240	
March 29 2000	168.66129	1.02842	1.02596	1.00247	
March 30 2000	168.67419	1.02850	1.02604	1.00255	
March 31 2000	168.68710	1.02858	1.02612	1.00263	

CPI-U (NSA) for :	November 1999 168.3		December 1999 168.3		January 2000 168.7

TREASURY INFLATION-INDEXED SECURITIES
Ref CPI and Index Ratios for
March 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**
March 1 2000	168.30000	1.06226	1.05086	1.04175	1.04056
March 2 2000	168.31290	1.06234	1.05094	1.04183	1.04064
March 3 2000	168.32581	1.06242	1.05102	1.04191	1.04072
March 4 2000	168.33871	1.06251	1.05110	1.04199	1.04080
March 5 2000	168.35161	1.06259	1.05118	1.04207	1.04088
March 6 2000	168.36452	1.06267	1.05126	1.04215	1.04096
March 7 2000	168.37742	1.06275	1.05134	1.04223	1.04104
March 8 2000	168.39032	1.06283	1.05142	1.04231	1.04112
March 9 2000	168.40323	1.06291	1.05150	1.04239	1.04120
March 10 2000	168.41613	1.06300	1.05158	1.04247	1.04128
March 11 2000	168.42903	1.06308	1.05166	1.04255	1.04136
March 12 2000	168.44194	1.06316	1.05174	1.04263	1.04144
March 13 2000	168.45484	1.06324	1.05182	1.04271	1.04152
March 14 2000	168.46774	1.06332	1.05191	1.04279	1.04160
March 15 2000	168.48065	1.06340	1.05199	1.04287	1.04168
March 16 2000	168.49355	1.06348	1.05207	1.04295	1.04176
March 17 2000	168.50645	1.06357	1.05215	1.04303	1.04184
March 18 2000	168.51935	1.06365	1.05223	1.04311	1.04192
March 19 2000	168.53226	1.06373	1.05231	1.04319	1.04199
March 20 2000	168.54516	1.06381	1.05239	1.04327	1.04207
March 21 2000	168.55806	1.06389	1.05247	1.04335	1.04215
March 22 2000	168.57097	1.06397	1.05255	1.04343	1.04223
March 23 2000	168.58387	1.06405	1.05263	1.04351	1.04231
March 24 2000	168.59677	1.06414	1.05271	1.04359	1.04239
March 25 2000	168.60968	1.06422	1.05279	1.04367	1.04247
March 26 2000	168.62258	1.06430	1.05287	1.04375	1.04255
March 27 2000	168.63548	1.06438	1.05295	1.04383	1.04263
March 28 2000	168.64839	1.06446	1.05303	1.04391	1.04271
March 29 2000	168.66129	1.06454	1.05311	1.04399	1.04279
March 30 2000	168.67419	1.06462	1.05319	1.04407	1.04287
March 31 2000	168.68710	1.06471	1.05328	1.04415	1.04295

CPI-U (NSA) for : November 1999 168.3 December 1999 168.3 January 2000 168.7

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
February 22, 2000

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Term:	91-Day Bill
Issue Date:	February 24, 2000
Maturity Date:	May 25, 2000
CUSIP Number:	912795DX6

High Rate: 5.640% Investment Rate 1/: 5.818% Price: 98.574

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 82%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 21,649,911	$ 7,039,501
Noncompetitive	1,313,548	1,313,548
PUBLIC SUBTOTAL	22,963,459	8,353,049 2/
Foreign Official Refunded	647,400	647,400
SUBTOTAL	23,610,859	9,000,449
Federal Reserve	4,183,180	4,183,180
Foreign Official Add-On	0	0
TOTAL	$ 27,794,039	$ 13,183,629

Median rate 5.600%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 5.550%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 22,963,459 / 8,353,049 = 2.75

1/ Equivalent coupon-issue yield.
2/ Awards to TREASURY DIRECT = $1,027,819,000

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
February 22, 2000

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Term:	182-Day Bill
Issue Date:	February 24, 2000
Maturity Date:	August 24, 2000
CUSIP Number:	912795EX5

High Rate: 5.765% Investment Rate 1/: 6.038% Price: 97.085

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 77%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 18,033,790	$ 3,886,790
Noncompetitive	1,113,537	1,113,537
PUBLIC SUBTOTAL	19,147,327	5,000,327 2/
Foreign Official Refunded	3,000,000	3,000,000
SUBTOTAL	22,147,327	8,000,327
Federal Reserve	3,815,000	3,815,000
Foreign Official Add-On	128,000	128,000
TOTAL	$ 26,090,327	$ 11,943,327

Median rate 5.750%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 5.660%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 19,147,327 / 5,000,327 = 3.83

1/ Equivalent coupon-issue yield.
2/ Awards to TREASURY DIRECT = $853,158,000

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

February 22, 2000

U.S. International Reserve Position

The Treasury Department today released U.S. reserve assets data for the week ending February 18, 2000.

As indicated in this table, U.S. reserve assets totaled $69,475 million as of February 18, 2000, down from $69,909 million as of February 11, 2000.

(in US millions)

I. Official U.S. Reserve Assets		February 11, 2000			February 18, 2000		
	TOTAL	69,909			69,475		
		Euro	Yen	TOTAL	Euro	Yen	TOTAL
1. Foreign Currency Reserves [1]							
a. Securities		4,954	5,890	10,844	4,959	5,789	10,748
Of which, issuer headquartered in the U.S.				0			0
b. Total deposits with:							
b.i. Other central banks and BIS		8,529	11,400	19,929	8,536	11,206	19,743
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]				17,727			*17,631*
3. Special Drawing Rights (SDRs) [2]				10,361			*10,305*
4. Gold Stock [3]				11,048			11,048
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 February 11, 2000 are final. Data for SDR holdings and the reserve position in the IMF shown as of February 18, 2000 (in italics) reflect preliminary adjustments by the Treasury to the February 11, 2000 IMF data.

3/ Gold stock is valued monthly at $42.2222 per fine troy ounce. Values shown are as of December 31, 1999. The November 30, 1999 value was $11,049 million.

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U.S. International Reserve Position (cont'd)

II. Predetermined Short-Term Drains on Foreign Currency Assets

	February 11, 2000	February 18, 2000
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

	February 11, 2000	February 18, 2000
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
February 23, 2000

Contact: Public Affairs
(202) 622-2960

TREASURY NAMES COLOMBIAN DRUG KINGPINS TO TRAFFICKERS LIST

The Treasury Department today added the names of Ivan and Julio Fabio Urdinola Grajales, among the most wealthy and powerful drug kingpins operating in Colombia today, their fronts from the North Valle drug cartel, and additional fronts belonging to Cali cartel kingpins Gilberto and Miguel Rodriguez Orejuela to the list of Specially Designated Narcotics Traffickers (SDNTs).

The Treasury action blocks the assets of SDNTs found in U.S. jurisdiction and prohibits Americans from doing business with them, further exposing, isolating, and incapacitating Colombian drug cartels and their agents. The two drug kingpins named to the SDNT list today by Treasury have risen to prominence with the decline of the Cali cartel and are responsible for huge volumes of drugs that have entered the United States. In addition to the two drug kingpins, Treasury added 20 businesses and 9 associated individuals that it has determined are acting as fronts for the North Valle and Cali drug cartels.

This action is part of the ongoing interagency effort of the Treasury, Justice and State Departments to carry out President Clinton's Executive Order 12978, signed on October 21, 1995, which applies economic sanctions against the Colombian drug cartels. The list of SDNTs includes kingpins, associates and businesses from Colombia's Cali, North Coast and North Valle drug cartels.

With the addition of the names released today, the assets of a total of 527 businesses and individuals are blocked under the 1995 Executive Order and are prohibited from American financial and business dealings. The list of businesses and individuals named by Treasury today as SDNTs is available at www.ustreas.gov/ofac. The list will be published in the Federal Register at a later date.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR IMMEDIATE RELEASE
February 23, 2000

Contact: Steven Posner
(202) 622-2960

U.S., U.K. TO NEGOTIATE REVISION TO ESTATE AND GIFT TAX TREATY

The United States and the United Kingdom have scheduled negotiations of a revision to their estate and gift tax treaty. The negotiations are scheduled to be held in London this spring. The revision would modify the treaty currently in force between the two countries, which has been in effect since 1979. The two Governments have decided that the current treaty needs to be updated to take into account developments in both countries' tax systems and policies.

The Treasury Department invites written comments from the public regarding the upcoming negotiations. Comments on the proposed treaty revision should be sent to Philip R. West, International Tax Counsel, Room 1000 Main Treasury, Washington, DC 20220, with a copy to Patricia A. Brown, Deputy International Tax Counsel, Room 4224 Main Treasury, Washington, DC 20220. Comments may also be sent by fax to (202) 622-0646, or by e-mail to Phil.West@do.treas.gov, with a copy to Patricia.A.Brown@do.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
February 23, 2000

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 2-YEAR NOTES

Interest Rate:	6 1/2%	Issue Date:	February 29, 2000
Series:	S-2002	Dated Date:	February 29, 2000
CUSIP No:	9128276A5	Maturity Date:	February 28, 2002
STRIPS Minimum:	$400,000		

High Yield: 6.590% Price: 99.834

All noncompetitive and successful competitive bidders were awarded securities at the high yield. Tenders at the high yield were allotted 18%. All tenders at lower yields were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 30,464,413	$ 10,499,848
Noncompetitive	1,509,473	1,509,473
PUBLIC SUBTOTAL	31,973,886	12,009,321 1/
Federal Reserve	3,218,610	3,218,610
Foreign Official Inst.	1,300,000	1,300,000
TOTAL	$ 36,492,496	$ 16,527,931

Median yield 6.570%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low yield 6.520%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 31,973,886 / 12,009,321 = 2.66

1/ Awards to TREASURY DIRECT = $963,608,000

http://www.publicdebt.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

FOR IMMEDIATE RELEASE
February 24, 2000

Contact: Helaine Klasky
(202) 622-2910

U.S. DISAPPOINTED WITH WTO FSC RULING, VOWS TO WORK WITH EU TO REACH SOLUTION

Treasury Secretary Lawrence H Summers and United States Trade Representative Charlene Barshefsky announced today that the WTO Appellate Body ruled against the United States in the dispute involving the Foreign Sales Corporation ("FSC") provisions of U S tax law

"I am disappointed that the WTO Appellate Body has upheld the panel's ruling," Secretary Summers stated. "The FSC rules are widely viewed as creating a level playing field with European tax systems and are important to our business community. We will work closely with the Europeans, the business community and the Congress to achieve a constructive solution."

"We strongly disagree with the Appellate Body's ruling," stated Ambassador Barshefsky. "Our view remains that the FSC is completely consistent with U.S. WTO obligations. We respect our WTO obligations, and will seek a solution that ensures that U.S. firms and workers are not at a competitive disadvantage with their European counterparts It is in neither the interest of the U.S. nor the EU to allow this case to damage our bilateral relationship or to impede progress on a range of U.S.-EU activities."

Background

The Appellate Body decision arose out of an EU complaint against the FSC provisions, which allow a portion of a U.S. taxpaying firm's foreign-source income to be exempt from U.S income tax Congress enacted the FSC specifically to conform to principles adopted by the GATT in 1981 and those principles were incorporated into the WTO agreements In 1997, the EU alleged that the FSC provisions violate U S obligations under the WTO Subsidies and Agriculture agreements A WTO dispute settlement panel sided with the EU last fall, and the Appellate Body has upheld the dispute settlement panel's findings

The FSC was introduced in the early 1980s after its predecessor provisions, the Domestic International Sales Corporation (DISC) rules, were found to be a prohibited export subsidy under General Agreement on Tariffs and Trade (GATT) subsidy rules In adopting the ruling against the DISC and certain European tax provisions, the GATT Council issued an "understanding" (now also reflected in the WTO Subsidies Agreement) encompassing the following principles:

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- economic processes (including transactions involving exported goods) located outside the territorial limits of the exporting country need not be subject to taxation;

- such processes should not be regarded as export activities;

- arm's length pricing should be observed for tax purposes in transactions between exporting enterprises and related foreign buyers; and

- GATT (and now WTO) subsidy disciplines do not prohibit the adoption of measures to avoid double taxation of foreign source income.

The FSC provisions permit a portion of income generated outside the territorial limits of the United States to be exempt from U.S. income tax. To qualify for these exemptions, the FSC must have a foreign presence, meet certain management requirements and meet certain economic process requirements addressing both the extent and nature of the sales activities undertaken abroad as well as requiring that a minimum level of direct costs be incurred abroad with respect to certain sales activities (*e.g.*, advertising, order processing, etc.). If export property is sold to a FSC by a related person (or a commission is paid by a related person to a FSC with respect to export property), the taxable income of the FSC and related person is based on transfer pricing rules designed to conform to the arm's length pricing standard in the Subsidies Agreement. (Another qualification limits the tax exemption to a portion of export income resulting from the sale of products of which at least 50 percent of the "fair market value" is attributable to domestic content.)

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED UNTIL 2:30 P.M.
February 24, 2000

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 $27,298 million of publicly held securities maturing March 2, 2000, and to pay down about $298 million.

In addition to the public holdings, Federal Reserve Banks for their own accounts hold $13,185 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 $6,345 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 $6,345 million maturing bills held by foreign and international monetary authorities, $1,612 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 $937 million into the 13-week bill, $716 million into the 26-week bill, and $591 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 MARCH 2, 2000

February 24, 2000

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 DY 4	912795 EY 3	912795 FV 8
Auction date	February 28, 2000	February 28, 2000	February 29, 2000
Issue date	March 2, 2000	March 2, 2000	March 2, 2000
Maturity date	June 1, 2000	August 31, 2000	March 1, 2001
Original issue date	December 2, 1999	March 2, 2000	March 2, 2000
Currently outstanding	$12,377 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.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR IMMEDIATE RELEASE
Text as Prepared for Delivery
February 29, 2000

DEPUTY TREASURY CHIEF FINANCIAL OFFICER STEVEN APP TESTIMONY BEFORE THE HOUSE COMMITTEE ON GOVERNMENT REFORM SUBCOMMITTEE ON GOVERNMENT MANAGEMENT

Mr. Chairman and members of the Subcommittee, good morning and thank you for inviting me here today to discuss financial management in the Department of the Treasury and the Internal Revenue Service (IRS). Throughout the fiscal year (FY) 1999 financial reporting cycle senior Treasury officials, from the Department's Assistant Secretary for Management and Chief Financial Officer (ASM/CFO) to the IRS' Deputy Commissioner, have provided critical oversight to improve the audit results at the Internal Revenue Service (IRS) -- a commitment we made to you a year ago.

While we are pleased with the continued progress that has been made across the Treasury Department, both in the timeliness and quality of our FY 1999 audit results, the remaining financial reporting deficiencies on the IRS administrative accounts have resulted in the sole qualification of opinion on the Department's FY 1999 Accountability Report. That said, we are encouraged by the General Accounting Office's (GAO's) reported findings of progress in seven areas of financial reporting at IRS, particularly the progress made on the balance sheet. Working closely with IRS, and our audit partners in the GAO, the Treasury Inspector General, and Treasury Inspector General for Tax Administration (TIGTA) offices, we intend to build on these positive, albeit incremental, results and strive for unqualified opinions at both the IRS and the Department as a whole for the FY 2000 financial reporting cycle. It should be noted, however, that the path to improved, short-term audit results will remain labor intensive for the next few years, until core financial and management systems can be reconfigured and/or replaced.

Department management fully recognizes the leadership role Treasury must play in sound financial reporting and will continue to support the IRS efforts to sustain the progress made during FY 1999, strengthen the CFO structure and management team within the IRS, and build the financial systems needed to improve both financial reporting and, more importantly, management of IRS resources.

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A sea change in transparency and accountability.

This is perhaps most visible in the IMF's new policies on the public release of documents. For example, since last June, in large part as a result of Administration and Congressional urging, there is now a presumption that the full set of program documents considered by the IMF Board - including Letters of Intent - which detail the policy commitments that countries have undertaken as a condition for IMF support will be released. Since June 3, 58 arrangements have been discussed by the Board, and program documents were released in 50 of these cases.

Similarly, all of the multilateral development banks have in place mechanisms for public information disclosure and increased public participation. Increasingly the institutions use their Internet websites to post a large volume of project information and appraisal documents and other information. At the World Bank, disclosure of the Country Assistance Strategies (CASs), the Bank's key planning document for future lending, is now routine.

New emphases in program content.

We have advocated substantial changes in the scope and nature of the conditionality for IMF and other international official support: to place greater emphasis on the importance of market opening and liberalization of trade; to focus more on the development of the institutions and policies that will allow markets to operate; to take better account of the impact on the poor of economic adjustments; to increase national ownership and participation in reforms; and for the Multilateral Development Banks to place greater weight on environmental, labor and social issues in the design of programs.

For example, as part of its recent IMF program, Indonesia 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.

Making good governance a systematic part of IFI operations

We have consistently worked to make governance and effective use of funds a core part of IFI procedures. Most recently, in light of our experience in Russia, we have led the call from the G7 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.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED UNTIL 1:00 PM EST
Text as Prepared for Delivery
February 28, 2000

"TACKLING THE GROWTH OF CORPORATE TAX SHELTERS" TREASURY SECRETARY LAWRENCE H. SUMMERS REMARKS TO THE FEDERAL BAR ASSOCIATION, WASHINGTON, DC

Good morning. I am pleased to be here today to discuss what may be the most serious compliance issue threatening the American tax system today: the rapid growth of abusive corporate tax shelters. President Clinton and Vice-President Gore and we at the Treasury and the IRS have felt continuing concern at this growing problem. I want to reflect today on where we are on these crucial issues and where we are going.

Today, the Administration is announcing a series of reforms that, combined with other steps we are taking, will constitute the most comprehensive effort to date to curb abusive corporate tax shelters. These proposals will be the focus of my remarks today. But let me begin by outlining why we in the Administration – and so many others, including the staff of the Joint Committee on Taxation, the American Bar Association, the New York State Bar Association and other bodies – now believe reform to be necessary.

Let me be clear: our aim is to curb illegitimate tax avoidance. We have no quarrel with the natural desire of companies and individuals to minimize their tax burden by legitimate means. We well remember the words of Learned Hand: "There is nothing sinister in arranging one's affairs as to keep taxes as low as possible. Everybody does so, rich or poor; for nobody owes any public duty to pay more than the law demands, to demand more in the name of morals is mere cant."

We must, however, draw the line at the pursuit of engineered transactions that are devoid of economic substance. These transactions have no goal other than to reduce a corporation's tax liabilities. In doing so, they undermine the integrity of the tax system.

In the early 1980s, widespread abuse of the tax system by wealthy individuals undermined our tax base and generated cynicism about the fairness of the tax code. Litigation to pursue abusive shelters also consumed large amounts of IRS time and money. Congress responded appropriately by enacting reforms that went a long way towards restoring trust in the integrity of the code.

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Today there is growing evidence that abusive corporate tax shelters pose a similar threat to our tax system. Since 1990, the gap between book income and taxable income has more than doubled, in real terms, to more than $90 billion and is now wider than at any time since the mid-1980s. Even in a very good year for the corporate sector, last year corporate tax receipts fell by 2 percent. Although some of this gap can be attributed to other causes, there is no doubt that there has been a striking growth in abusive tax shelters.

As we made clear in the Treasury's White Paper on corporate tax shelters last year, abusive shelters have a number of malign effects:

- Shelters reduce the corporate tax base and thus raise the burden on other taxpayers.

- Shelters undermine the vitality of our voluntary tax system. Companies feel obliged to follow the lead of competitors who abuse the tax code in a "race to the bottom". The New York State Bar recently highlighted the "corrosive effect" of shelters, stating: "The constant promotion of these frequently artificial transactions breeds significant disrespect for the tax system, encouraging responsible corporate taxpayers to follow the lead of other taxpayers who have engaged in tax advantaged transactions."

- Shelters complicate the tax code by forcing legislators to take remedial action. In the past few years alone, nearly 30 narrow statutory provisions have been adopted in response to abuses further complicating the code.

- And shelters divert resources from productive investment in the real economy. As a former tax official, now a leading member of a well-known law firm, has said: "You can't underestimate how many of America's greatest minds are being devoted to what economists would all say is totally useless economic activity."

The Treasury, the IRS, and Congress have already taken aggressive action to curb visible shelters. It is suggestive of the scale of the problem that specific action over the last ten years will save the American taxpayer almost $80 billion over the next decade.

These include:

- Closure of the so-called Lease-In Lease-Out (LILO) shelter whereby companies attempted to avoid tax through circular transactions. In one extreme case, a company leased a town hall from a Swiss municipality and leased it back the same day. This measure saved $10.2 billion.

- Closure of the so-called BOSS shelter where companies would generate an artificial tax loss that can be used to offset other income. This action is also expected to save billions of dollars for the tax system.

- Closure of the liquidating REIT transaction that saved the taxpayer $34 billion. Corporations used the unintended confluence of two unrelated tax provisions to avoid paying taxes on income.

- And today we are issuing guidance to close the so-called "debt straddle". This is a shelter designed to create an artificial tax loss by setting up two debt instruments, the interest rate on one of which resets to zero, generating a loss, while the interest rate on the other doubles. The debt straddle is reminiscent of the old butterfly straddles in the commodity markets and is best described as "heads I win, tails I win".

These and other steps have produced important progress. But they have been – necessarily – ad hoc. Treasury and the IRS have come to understand new tax shelters only by capturing them on audit, picking up reports in the trade press, receiving anonymous tips and finding irregularities on tax returns. What we see, we can act upon. What we cannot see, by definition, we cannot act upon. But what we fear is that visible corporate tax shelters are only the tip of a very large iceberg.

And there are now clear signs that abuse of the corporate tax code is becoming more sophisticated and harder to detect: companies are demanding "black box" features in their transactions that are structured to be impenetrable to all but those who designed it. As one tax promoter said recently: "You can have the greatest shelter in the world, and clients won't pay for it if it is too simple. I've rejected a lot of great ideas for that reason." For these reasons, we believe the traditional ad hoc approach to this problem is no longer tenable.

Our comprehensive strategy for combating abusive corporate tax shelters contains three elements that are mutually reinforcing:

- First, new regulations to improve disclosure of corporate shelters effective today.

- Second, administrative reforms within the IRS and strengthened rules governing the practice of accountants and lawyers before the IRS.

- Third, new legislation to increase penalties for abusive transactions and to codify the economic substance doctrine.

Deputy Secretary Eizenstat, Commissioner Rossotti, Chief Counsel Brown, Acting Assistant Secretary Talisman, and myself are all committed to pursuing these reforms. And we look forward to working with Congress, the tax community, the legal profession and others in achieving these goals.

I. New Regulations to Combat the Proliferation of Shelters.

A central element of our approach in curbing tax shelters is bringing these transactions to light and taking remedial action where appropriate. To this end, Treasury and the IRS are today issuing three new regulations to bring more corporate shelters into the open. By requiring companies to disclose any transactions that significantly reduce their liabilities, these guidelines will enhance disclosure and deter abusive shelters. They will not impose a burden on taxpayers engaging in legitimate transactions.

- First, taxpayers will be required to attach a statement to their return providing information on any transactions with multiple characteristics common to tax shelters. These include situations where there is a significant difference between book and tax income; where there are fees of more than $100,000 to a promoter; where there is use of a tax indifferent party to provide tax benefits; and where there is insurance against benefits that do not materialize.

- Second, promoters must disclose any transaction that has a "significant purpose" of tax avoidance or evasion, that is offered under conditions of confidentiality, and that has promoter fees above $100,000.

- Third, in order to facilitate cross-checking of tax reporting by investors in promoted products we are requiring promoters of tax shelters to maintain lists of investors and other relevant information that must be supplied on request to the IRS.

These are temporary and proposed regulations that will have an impact on taxpayers from this point forward.

II. Administrative Reforms.

As we increase disclosure, we must also increase the capacity of the IRS to act on this crucial issue and enhance the capacity for self-regulation. Commissioner Rossotti has rightly made customer service a central priority for the IRS. However part of serving the citizenry is ensuring the fairness of the tax system for all.

The reforms comprise two elements: internal change at the IRS, and enhancing the incentive and capacity for self-regulation within the industry.

Change at the IRS

Under the leadership of Commissioner Rossotti, the IRS is undergoing a substantial restructuring to re-focus the IRS along functional as opposed to geographic lines. One of the benefits of this will be that officials will acquire the expertise to detect complex tax shelter abuses more easily.

In addition, the IRS is establishing a central office for tax shelter analysis to coordinate and guide the IRS's efforts in combating abusive shelters. The central tax office will be included in the mid-size businesses division overseen by Larry Langdon, former head of corporate tax affairs at Hewlett Packard. As a result of recent efforts to combat tax shelters, there are already an increasing number of abusive tax shelter cases in various stages of examination, appeal or litigation at the IRS.

At the same time, we are mindful of the fact that it can sometimes be hard to distinguish zealous pursuit of duty from over-stepping the boundaries of the law. That is why we are putting in place proper safeguards to prevent that line from being crossed. For example, Treasury and the IRS are looking at whether to allow taxpayers to pre-file future transactions for IRS approval so that the new regulations and proposed legislative reforms do not interrupt legitimate economic transactions. The IRS is also exploring the possibility of establishing a fast-track procedure at the request of taxpayers under investigation.

Raising Professional Standards

The IRS cannot be asked to shoulder the entire burden of compliance. If we are serious in our intention of curbing abusive shelters then we need to place more emphasis on professional conduct of those who participate in the industry, including accountants, lawyers and other related professions. The dilemmas of this area have been exemplified by the recent remark of a tax practitioner, that "writing tax opinions is a choice between eating and sleeping. I like to eat." We would prefer that he get some rest.

To enhance self-regulation and compliance within the industry, we are planning within the next six months to issue an updated version of Circular 230, the professional guidelines on conduct for those who practice before the IRS. This may include sanctions on firms that issue opinions on tax shelters, limits on contingent fee arrangements and heightened opinion standards. In extreme cases, we would contemplate suspending individuals or even whole firms from practicing before the IRS.

I recognize that these issues will require discussion. To this end, we expect to organize a series of meetings with key figures in the legal, accounting, investment banking and wider corporate community to discuss how we can work together to meet our common obligations.

III. New Legislative Action

The action we are taking today on disclosure and our efforts to raise standards are important and necessary steps. But they are not sufficient. Disclosure only deters if abuse has consequences. It is right that we require companies to disclose tax shelters in their IRS statements. But companies also need a good reason to comply with the new guidelines in the first place.

That is why we are also proposing legislation in the FY2001 budget that would give us the ability to pursue the abusive shelters that are hidden from view. Formally we estimate that these proposals would save the taxpayer $23 billion over the next decade. But in practice are more likely to reach tens of billions of dollars. I also want to thank Congressman Doggett for advancing similar legislation. We look forward to working with him and the tax-writing committees to advance these changes.

First, penalties for non-disclosure

There must be effective disincentives to stop companies from violating reasonable standards of disclosure. These must also be sufficiently tough to confront the underlying problem: the spread of abusive tax shelters. The proposals include:

- A penalty of $100,000 for each failure to disclose a transaction with features common to tax shelters.

- Raising the penalty for substantial understatement from 20 to 40 percent where a taxpayer's statement does not disclose a corporate tax shelter. Also, we would reduce the dollar thresholds on the understatement penalty for large corporations.

Second, penalties on related entities

The creation of abusive tax shelters is a sophisticated process that encompasses a broad range of interested parties beyond the companies themselves. These include tax-indifferent entities, such as foreign corporations, the promoters of shelters, and entities that profit from providing advice. Our proposals must therefore include measures to deter third parties from involvement in abusive shelters. These include:

- A 25 percent excise tax on fees received in connection with the promotion and implementation of corporate tax shelters.

- The imposition of tax consequences on otherwise tax indifferent entities that enable shelter deals to go ahead by absorbing otherwise taxable income in exchange for a fee.

Third, codifying the economic substance doctrine.

More fundamental, yet surely more difficult is the need to codify the doctrine of economic substance so that we can combat abusive shelters. There are countless instances where specific action targeted at one type of tax shelter unintentionally leads to the creation of another. As I mentioned earlier, last year, we shut down LILOs; yet already we are hearing about "Son of LILO" transactions. The "BOSS" shelters we had to respond to last year were little different to a structure closed down by several months before. And so on.

We propose to cut through this problem by codifying the economic substance doctrine into law. The guiding principle of economic substance is that taxpayers should not be allowed to derive benefits from transactions that have no meaningful economic purpose - where the tax benefits from a transaction significantly outweigh any pre-tax profits. The proposal would bring a number of improvements:

- Codification would combat abusive tax shelters on a universal rather than a case-by-case basis.

- It would attack tax shelters before they arose by requiring taxpayers to apply this doctrine to transactions to determine whether the tax benefits would be allowable.

- And it would remove much of the need for and burden of tax litigation from the judicial system.

IV. Conclusion.

The specific action we took today; the three new regulations; the ongoing administrative changes; and the legislation we are proposing, each reflect different aspects of what we believe is a comprehensive strategy.

I want to emphasize that these elements build on each other. Without progress on each, it will not be possible to protect the tax system. We are prepared to debate, discuss and to compromise as to the details. But I am convinced it is a matter of national importance that we implement each of these changes as rapidly as possible. We look forward to working with all of you towards this objective. Thank you.

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PUBLIC DEBT NEWS

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

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

FOR IMMEDIATE RELEASE
February 28, 2000

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Term:	91-Day Bill
Issue Date:	March 02, 2000
Maturity Date:	June 01, 2000
CUSIP Number:	912795DY4

High Rate: 5.670% Investment Rate 1/: 5.831% Price: 98.567

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 24%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 20,030,362	$ 7,254,562
Noncompetitive	1,333,313	1,333,313
PUBLIC SUBTOTAL	21,363,675	8,587,875 2/
Foreign Official Refunded	420,000	420,000
SUBTOTAL	21,783,675	9,007,875
Federal Reserve	4,534,955	4,534,955
Foreign Official Add-On	0	0
TOTAL	$ 26,318,630	$ 13,542,830

Median rate 5.640%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 5.560%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 21,363,675 / 8,587,875 = 2.49

1/ Equivalent coupon-issue yield.
2/ Awards to TREASURY DIRECT = $1,030,315,000

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
February 28, 2000

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Term:	182-Day Bill
Issue Date:	March 02, 2000
Maturity Date:	August 31, 2000
CUSIP Number:	912795EY3

High Rate: 5.765% Investment Rate 1/: 6.022% Price: 97.085

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 12%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 17,270,861	$ 3,939,880
Noncompetitive	1,063,897	1,063,897
PUBLIC SUBTOTAL	18,334,758	5,003,777 2/
Foreign Official Refunded	3,000,000	3,000,000
SUBTOTAL	21,334,758	8,003,777
Federal Reserve	3,845,000	3,845,000
Foreign Official Add-On	686,000	686,000
TOTAL	$ 25,865,758	$ 12,534,777

Median rate 5.750%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 5.660%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 18,334,758 / 5,003,777 = 3.66

1/ Equivalent coupon-issue yield.
2/ Awards to TREASURY DIRECT = $776,326,000

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

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February 29, 2000

STATEMENT BY TREASURY SECRETARY LAWRENCE H. SUMMERS SENATE COMMITTEE ON FOREIGN RELATIONS

Mr.Chairman, Ranking Member Biden, members of this Committee. I am pleased to have this opportunity to discuss the ongoing reform of the international financial institutions, especially the International Monetary Fund - which I know is of considerable interest to this committee and other members of Congress.

Let me focus my remarks on five issues, with particular emphasis on the last two:

- First, the current outlook for the global economy, including the crisis economies in which the International Financial Institutions (IFIs) have recently been actively involved.
- Second, the case for continued United States support of the IFIs.
- Third, the important steps that the Administration has taken in recent years to strengthen the international financial architecture and the IFIs.
- Fourth, our new agenda for reform at the IMF.
- Fifth, the new framework that we have helped to put in place for concessional support of the poorest countries as part of the enhanced debt relief initiative for the Heavily Indebted Poor Countries – and the urgent need for the United States to play its part in ensuring that this initiative can move forward.

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I. Global Economic Developments

Looking around, I think that nearly everyone would agree that the global economic outlook has improved significantly relative to even a year ago, and certainly to the fall of 1998 when Congress was grappling with the issues of IMF funding and reform in the midst of the Asian financial crisis.

- The Korean economy, which two years ago was in the depths of financial crisis, last year grew by ten percent– and output is now 4 percent higher than it was before the crisis.

- Thailand's economy, which shrank by more than 10 percent in 1998, grew by 5 percent in 1999 and similar growth is expected this year.

- And in Brazil, which just one year ago faced the risk of severe financial instability following a large, unplanned devaluation, output is slightly above its pre-crisis level, and inflation this year is expected to remain in single digits.

Private sector analysts are expecting the economies of Asia, excluding Japan, to grow by more than 6 percent this year. This remarkable turnaround has important implications for the growth and financial stability of the United States and the rest of the world economy. To take just one example, Korean imports are expected to grow by close to 25 percent this year, and import growth is expected to be well into double digits in both Thailand and Indonesia.

In fact, recent private sector forecasts have predicted that every large economy will achieve positive growth next year. The US economy continues to show strong, non-inflationary growth. There are signs of stronger growth in Europe and some moderate improvement in Japan.

Despite these forecasts, it would be a mistake to consider this improving global trend to be inexorable. In a number of emerging market economies, notably Ecuador, financial stability remains elusive. And economic conditions in a number of countries and regions are still fragile. It will be very important to see stronger growth in Europe and Japan going forward to reduce the present imbalance in growth among the G7 economies. And of course, we in the United States must guard against complacency and preserve our hard-won fiscal discipline.

It would be an equally grave error to consider this recovery to have been in any way pre-ordained. The crises in Thailand and elsewhere from mid-1997 onward caused immense instability and economic pain for the countries worst affected. But there is no question that these crises would have been deeper and longer lasting, and the implications for American workers, businesses and farmers and the global financial system as a whole that much more severe, had it not been for the International Financial Institutions – especially the IMF.

The programs that the IMF and the international community as a whole 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. Certainly, reasonable people can debate whether all of the aspects were correct in every instance.

At the same time, there can now be little dispute that where this broad approach was implemented decisively by national authorities, and where there was large-scale conditioned official support for such an approach, stability and confidence by and large returned, governments were able to relax macro-economic policies relatively quickly and economic growth quite rapidly resumed. Where there was not such a response, as in Russia or initially in Indonesia, outcomes were much less favorable.

II. The Case for Strong United States Support for the International Financial Institutions

Since the Mexico crisis in 1994 President Clinton has been committed to the project that has come to be called the reform of the international financial architecture – and he has been committed to change at the IFIs as a crucial part of that effort. As we have said many times, the global economy has changed immeasurably since these institutions were founded more than fifty years ago at Bretton Woods, and it is both right and urgent that the IMF and other IFIs change along with it.

As I will discuss in a few moments, we have made some important progress in this area – and we are committed to a deeper set of reforms going forward, particularly at the IMF. But as we work to reform these institutions it is important to recognize the crucial respects in which they defend, protect and enhance America's interests.

Americans and the international community as a whole always – and appropriately – tend to respond to and focus on the problems that one can locate on a map, in places such as Kosovo or East Timor. What we may focus on too little are the things that might help prevent such problems occurring in the future. That is why our support for the IFIs and the strong policies that they promote is so important. Quite simply, they are one of the most effective – and cost-effective – investments we can make in the forward defense of America's core interests.

- 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 population lives.

- With respect to the IMF, appropriations for the US quota do not result in any net budgetary outlay, yet they can catalyze significant international financial resources when financial crises threaten the financial stability and prosperity of the global economy.

These institutions help promote a more stable world. They can help to promote vital humanitarian objectives. And, let there be no doubt, they promote changes that are central to our nation's economic and commercial future.

Through their programs of lending and advice the IFIs promote open and liberalized markets; transparency and reduced corruption; strengthened property rights and a stable environment for private investment. The United States has 4.5 percent of the world's population, 22 percent of its income. In a very real sense, the future growth in our standard of living will depend a great deal on the growth in our export markets. And that, in turn, will depend a great deal on whether the kinds of development strategies that the IFIs support are successful.

For all these reasons, the IFIs are indispensable. But as we have said many times, that does not mean we have to be satisfied with them as they now are.

III. The Reform of the International Financial Architecture and the International Financial Institutions

As I described to this Committee last November, the ongoing reform of the global financial architecture has produced some important achievements, including, most recently, the creation of the G20. This grouping, which met for the first time last December, will be a permanent informal mechanism for dialogue on key economic and financial issues among industrial and emerging market economies that collectively will account for more than 80 percent of global GDP.

In addition:

- With the creation of the IMF's Supplementary Reserve Facility, we have changed the terms of the exceptional financial support that the international community provides, working to reduce moral hazard with the application of premium interest rates.

- 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, with increased incentives to pursue sound policies before crisis strikes. These include the incentives embodied in the terms of the new Contingent Credit Line, which has several of the features of the SRF, but was designed to enable the IMF to protect from contagion countries that had already adopted sound policies.

- And we have found new ways to involve the private sector in the resolution of crises - most notably in the cases of Korea and Brazil.

More generally, changing the broad orientation of the IFIs has been an important focus of this Administration and many in Congress in recent years. In this context we have seen important steps forward on a number of fronts, including:

A sea change in transparency and accountability.

This is perhaps most visible in the IMF's new policies on the public release of documents. For example, since last June, in large part as a result of Administration and Congressional urging, there is now a presumption that the full set of program documents considered by the IMF Board - including Letters of Intent - which detail the policy commitments that countries have undertaken as a condition for IMF support will be released. Since June 3, 58 arrangements have been discussed by the Board, and program documents were released in 50 of these cases.

Similarly, all of the multilateral development banks have in place mechanisms for public information disclosure and increased public participation. Increasingly the institutions use their Internet websites to post a large volume of project information and appraisal documents and other information. At the World Bank, disclosure of the Country Assistance Strategies (CASs), the Bank's key planning document for future lending, is now routine.

New emphases in program content.

We have advocated substantial changes in the scope and nature of the conditionality for IMF and other international official support: to place greater emphasis on the importance of market opening and liberalization of trade; to focus more on the development of the institutions and policies that will allow markets to operate; to take better account of the impact on the poor of economic adjustments; to increase national ownership and participation in reforms; and for the Multilateral Development Banks to place greater weight on environmental, labor and social issues in the design of programs.

For example, as part of its recent IMF program, Indonesia 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.

Making good governance a systematic part of IFI operations

We have consistently worked to make governance and effective use of funds a core part of IFI procedures. Most recently, in light of our experience in Russia, we have led the call from the G7 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.

More generally, at both the IMF and the World Bank we have worked to strengthen the link between new lending and borrower performance to insure that the resources go to the serious reformers. As a result, the institutions now rely on monitorable criteria on issues including governance, military expenditure review, and anti-corruption efforts to determining new lending levels. Moreover, all of the MDBs have policies and programs in place that are designed to improve governance and eliminate opportunities for corruption - both internally and with borrowing countries.

Progress in areas highlighted by the IMF legislation

With reference to the IMF in particular, on October 1, 1999, Treasury submitted to Congress a major report on IMF reform detailing progress in efforts to increase the IMF's effectiveness in numerous areas such as increased transparency, strengthening of social safety nets, implementation of core labor standards, trade liberalization, promoting good governance, and the environment. This report is available on the Treasury website at: http://www.treas.gov/press/releases/docs/imfrefor.pdf.

In addition, with the active support of Treasury and the United States IMF Executive Director's Office, the IMF cooperated fully in the GAO's preparation of its report on the financial operations of the IMF, which was one of the requirements of the IMF legislation. This report was completed and transmitted to Congress in September 1999 ("International Monetary Fund: Observations on the IMF's Financial Operations").

Since the submission of the October report on IMF reforms, we have seen further progress in a number of areas, including:

- *Trade.* In its most recent Letter of Intent, published on January 20, Indonesia has pledged to "maintain a liberal trade regime, avoid introducing any new trade barriers, and remove remaining distortionary elements in the trade structure" and to eliminate during the program period "all exemptions to import tariffs (except those which are part of international agreements), and remove all existing non-tariff barriers (except those maintained for health and safety reasons)." Indonesia's government has further pledged to eliminate its import monopoly on rice.

- *Labor and Social Safety Nets.* In Bolivia, the authorities, in consultation with social partners and the International Labor Organization (ILO), intend to introduce a new labor law this year that will both enhance labor flexibility and bring Bolivian labor regulations into line with ILO standards, particularly those regarding equality of treatment among genders and labor safety. The USED/IMF has emphasized, both in the context of Bolivia's program and more broadly, the importance of ensuring that efforts to enhance labor market flexibility should include measures to support workplace representation and strengthen social safety nets

- *Environment.* In recent Article IV discussions with authorities in Laos, the IMF raised the issue of sustainable natural resource management for forestry, water, and agricultural land to prevent over-exploitation. The IMF recommended strengthening the forestry regulatory framework and enforcement as well as a review of logging and export privileges reserved to military-owned enterprises.

In addition, we have fully implemented the fiscal year 1997 Military Audit Legislation. As part of these efforts, following consultations with the U.S. Government and the IMF, the Government of Nigeria reactivated the role of its Auditor General, subjected defense spending to the same accountability standards as other ministries, and committed to consolidate all extra-budgetary military expenditures into the budget. In cases where a country's military audit system does not meet the standards of the legislation, the United States Executive Director has opposed IMF assistance.

In a number of areas we can agree that the IMF has moved some way forward relative to a few years ago. In others, there is a great deal more work left to do. In accordance with this committee's request and interests, let me now turn to our plans for deeper reform.

IV. Building a 21st Century IMF: Our Agenda for Reform

Our plans for reforming the IMF start from a single framing new reality of the global financial system today, that the private sector is the overwhelming source of capital for growth. 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.

We believe that the IMF must increasingly reflect that change, with a greater focus on promoting financial stability within countries, a stable flow of capital among them, and rapid recoveries following any financial disruptions.

Reforming the IMF to meet the conditions of a new time will partly be a matter of policies and procedures. It will also and perhaps most crucially be a matter of culture and orientation. In London last December I laid out five core reforms of the IMF's approach in the emerging economies that we believe are necessary.

These are:

1. *A greater focus on promoting the flow of information from governments to markets and investors.*

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, markets and the public as a whole. And 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 regularly published. We are working to forge a broad international consensus on this point going forward. More generally, we believe that substantial deficiencies in the accuracy and quantity of data that a country discloses should be noted and highlighted by the IMF in the way that more conventional macro-economic deficiencies are highlighted.

In this context, I am glad to report that as a result of United States urging, IMF staff are now working with outside experts to develop new tools for strengthening their safeguards against misuse of IMF funds and to support higher quality auditing and information practices in member countries.

2. *Greater attention to financial vulnerability as well as macro-economic fundamentals.*

In the wake of recent events, we believe that the IMF needs to focus much more attention on financial vulnerabilities such as those that played such a role in causing the crises in Asia.

This will mean, in particular, a greater focus on the strength of national balance sheets. In this context we believe the IMF should promote a more fully integrated assessment of a country's liquidity and balance sheet. To this end, it should work to incorporate more systematically, in its surveillance, indicators that provide a more meaningful guide to the adequacy of a country's reserves than simply their size relative to imports. Work is already under way at the IMF to explore how this can best be achieved.

By the same token, we believe that the IMF should highlight more clearly the risks of unsustainable exchange rate regimes. 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.

3. *A more strategic financing role that is focused 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 tightly focused in its financial involvement with countries, lending selectively and on short maturities. It can and must be on 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. Let me just highlight one here: the need for streamlined facilities. In this context we have supported a thorough review by the IMF's members and its management of the myriad lending facilities that have been established over time. One encouraging first step occurred last month, when the IMF Executive Board agreed to eliminate the Buffer Stock Financing Facility and the contingency element of the Compensatory and Contingency Financing Mechanism. But this process must go further.

We believe that a necessary result of the kind of streamlining would be that the IMF would come to rely on a very small number of core instruments for the bulk of its lending. These instruments will also need to be priced appropriately, both relative to each other and relative to alternative, private sources of finance. For example, in this context we believe that it would be appropriate to introduce higher charges for borrowing under standby arrangements, to encourage recourse to alternative sources of funding. The IMF Executive Board will undertake an initial discussion of the broad issues involved in streamlining the IMF's lending tools in March.

4. Greater emphasis on catalyzing market-based solutions.

In a world of global integration and rising private capital flows, the IMF's goal – and the goal of the international community as a whole – must be that a rising number of countries reach the point where it would be unthinkable that they should need the financial support of the IMF, just as it is now unthinkable that the UK or Spain would need it today. By the same token, at times of crisis, in such a world the IMF must have an increasingly important role as a facilitator of more market-based solutions.

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.

- As we have seen, for example in Ukraine and Pakistan, it will be necessary in some cases for countries to seek to change the profile and structure of their debts to the private sector. 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.

- 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 making a good faith effort to reach a collaborative agreement 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.

The IMF is currently preparing a report for the International Monetary and Financial Committee (formerly Interim Committee) on the ways in which the broad principles of the G-7 framework for private sector involvement in resolving crises have been implemented – with a view to informing further discussion of these issues going forward.

More broadly, we believe strongly that the IMF should establish a Market Conditions Advisory Group to help it have a deeper knowledge of the private sector and more systematic access to market trends and views.

5. Modernization of the IMF as an institution.

We further believe that if the work of the IMF is to change, the IMF itself may also need to change. Specifically, we believe it should move over time toward both 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 are more consistent with its relative economic and financial strength.

We also believe that the IMF should deepen the commitment to transparency that is built into its operations, especially by making the Fund's own financial workings clearer and more comprehensible to the public. In that context I am pleased to note that just last Friday we won IMF Board agreement on quarterly publication of the operational budget – to be renamed the Financial Transactions Plan – with a one quarter lag.

This would also be consistent with the legislative mandate that was enacted in last year's authorization of IMF off-market gold sales. The first such "FTP", covering the period March-May 2000, will be published in August.

V. Support for Effective Policies in the Poorest Countries

The focus of my remarks has so far has been the IMF's work in emerging market economies. Different issues are posed at the other end of the spectrum, in the poorest countries, which cannot attract significant private capital, and can borrow from the official sector only on concessional terms. In the past year, international concern about the debt problems of these countries has not only spurred action to provide deeper debt relief – but has prompted a transformation in the way in which the World Bank and the IMF operate in these countries more broadly.

The new framework for concessional assistance to the poorest

The underlying premise of the new approach is that rapid, enduring growth and poverty reduction are mutually reinforcing. Just as poverty reduction is not possible without growth, abject poverty and unequal access to economic opportunity can impede growth. Experience shows that countries that fail to educate their children or vaccinate them against diseases do not grow as fast as those that do.

Under the new approach, the World Bank will take the lead and the IMF will have a more tightly focused role in the poorest countries. As a condition for receiving debt relief and new concessional loans, countries are now required not only to have established a solid track record of reform, but they also must produce a forward-looking Poverty Reduction Strategy Paper.

With help from the World Bank, these strategies will clearly define national poverty reduction goals, such as reducing infant mortality and malnutrition, and identify the medium term costs associated with achieving these goals. The IMF will then work with the World Bank to ensure that the design of the macroeconomic framework is consistent with the poverty reduction program.

To symbolize the change in the IMF's role in these countries going forward, the IMF has replaced the Enhanced Structural Adjustment Facility with the Poverty Reduction and Growth Facility. In designing the PRGF, a strong effort was made to incorporate suggestions put forward in past evaluations of the ESAF, many of which echoed concerns that had been expressed by members of Congress.

The new strategy that is embodied in the PRGF has the following key elements:

- A much greater emphasis on enduring growth and poverty reduction as the overarching goal of official support, including concrete targets for the improvement of basic social indicators such as infant mortality and literacy.

- New mechanisms to ensure that programs have a genuine impact on the allocation of resources to core priorities such as basic health and education, and that the additional public funds made available by reducing debt result in additional poverty reduction efforts.

- Strengthened efforts to enhance government accountability and transparency, particularly in their fiscal management, and to encourage civil society participation, and country ownership of reforms.

- An enhanced focus on protecting the poor from the potential short-term negative effects of economic adjustment and reform.

Recent Progress in the Implementation of HIPC

Given the strong interest of many in Congress in this area let me say a little more about the early evidence with regard to the critical issue of translating debt relief into higher social sector spending.

For example:

- Last year, Uganda saved $45 million in debt service under the original HIPC. As a result, expenditures on health and education increased by $55 million. This relief helped the country to double enrollment in primary education in just two years. Under the enhanced HIPC, going forward Uganda is expected to receive an additional $650 million in debt relief in net present value terms.

- In 1999 Bolivia saved $77 million in debt service under the original HIPC, and social sector expenditures increased by more than $100 million. In 2000, Bolivia is expected to receive $85 million in debt service savings, leading to even greater investment in urgently needed services. With the enhanced HIPC, Bolivia's savings will be $850 million greater in net present value terms than they would otherwise have been.

In this effort we are working hard to ensure reasonable balance between, on the one hand, the strong humanitarian case for providing debt relief rapidly and on the other hand, the economic imperative that the right policies are in place so that debt relief is integrated into meaningful growth and poverty reduction.

The need for full funding of HIPC

Mr. Chairman, United States leadership was decisive in last year's enhancement of the HIPC program and the broader World Bank and IMF reforms it has inspired. With last year's budget agreement, Congress made it possible for that effort to proceed. But Congressional leadership is needed again this year to fully meet our commitments.

The steps agreed last year will help us to cover roughly one-third of the direct costs to the United States of implementing the enhanced HIPC. But much work remains to do our share, notably with respect to the multilateral HIPC Trust Fund, to which we have yet to make a contribution. Overall, every dollar of our total request will leverage $20 in international debt relief.

The Latin American HIPCs will be especially affected if we fail to ensure that the HIPC Trust Fund is adequately funded. To put it bluntly: if we do not play our part in this area, debt relief for Bolivia, Guyana, Honduras, and Nicaragua will not happen.

There should be no doubt that any delay in funding for this effort will have real consequences. For example:

- Just two weeks ago, Bolivia became the second country to qualify for enhanced HIPC. But it will not see a reduction in its debt payments this year because of the current financing gap in HIPC. Based on very rough estimates, Bolivia could therefore forgo as much as $35 million in debt relief this year, relief that might have been invested in more rapid growth and poverty reduction. If the financing gap is not filled, it will forgo an even greater amount of relief next year, of roughly $110 million, or more than 1 percent of Bolivian GDP.

- Mozambique has recently been hit by heavy rains and flooding that has destroyed crops, left up to one million people homeless and caused at least $70-80 million in damage to date. With a very strong record of market reforms, it has already qualified for HIPC, and it could qualify for enhanced HIPC in a matter of weeks. Under the enhanced terms, it would receive an additional $250 million in relief in present value terms over the next 20 years. But without full funding for the HIPC Trust Fund this additional relief could be delayed, just when the country needs it most.

That is why the President is requesting:

- A supplemental request for the FY2000 budget of $210 million and full authorization for the HIPC Trust Fund, without which qualifying countries such as Bolivia will be left waiting indefinitely for relief.

- Congressional authorization for the IMF to make full use of the earnings on the profits from off-market gold sales. Last year, Congress authorized the use of a portion of those earnings; the remaining 5/14 of those flows needs to be authorized so that the IMF can meet its commitments to debt relief as countries qualify.

- Appropriations for FY 2001 of $225 million for HIPC, comprising $150 million for the HIPC Trust Fund and $75 million to meet the cost of reducing our bilateral loans. To underscore our commitment to seeing this initiative through, the President has also requested $375 million in advance appropriations in FY2001 for these two elements of HIPC.

Mr. Chairman, debt relief for the poorest countries is a global moral imperative. It is also a global economic imperative, at a time when nearly all of the growth in the world's labor force and productivity will be in the developing countries - and their success in a new global economy is going to be important to the success of us all.

The choice we face is a simple one. We can play our full part in making HIPC happen. Or we can leave this initiative under-funded, and risk delay – and even a reversal – of economic reform and poverty reduction efforts in countries that are now working to put their past failures behind them. I hope that Congress will agree with us that the right choice is clear.

VI. Concluding Remarks

Mr. Chairman, in recent weeks we have been talking with IMF members and management with a view to making all of our reform proposals happen. As our global discussions on these issues continue, it will be important to consider not just the role of the IMF, but also the roles of the World Bank and other development institutions and how these institutions relate to each other. We intend to outline our proposals for reforming this aspect of the international financial architecture in the coming weeks in the lead-up to the Spring Meetings of the IMF and World Bank.

Let me conclude with one final thought. In line with the Committee's request, I have focused today on the international financial institutions. But clearly our most important global economic objectives today must be economic growth and helping countries to grow together. And finance is only one important element of achieving that kind of growth.

Another crucial element of successful development – which can only become more important as global integration proceeds – will be economic openness and growth in foreign trade, both for the domestic competition and innovation that it promotes and the greater interconnectedness of economies and economies that it creates.

In that context, granting Permanent Normal Trading Relations status to China as a critical part of its entry to the WTO entry, and passing both the African Growth and Opportunity Act and the Enhanced Caribbean Initiative, will be enormously important in the weeks and months ahead, for America's core interests and for global economic development.

I look forward to working with this Committee and with others in Congress on these and other crucial international priorities going forward. Thank you. I would now welcome any questions that you may have.

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DEPARTMENT OF THE TREASURY

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TREASURY TAX LEGISLATIVE COUNSEL JOSEPH MIKRUT TESTIMONY BEFORE HOUSE WAYS AND MEANS SUBCOMMITTEE ON OVERSIGHT

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

I appreciate the opportunity today to discuss with you the repeal of the installment method of accounting for accrual method taxpayers, which was originally proposed in the Administration's Fiscal Year 2000 budget and was enacted by section 536 of the Ticket to Work and Work Incentives Improvement Act of 1999, effective for sales or other dispositions occurring on or after December 17, 1999.

Background

Items of income and loss generally are taken into account by a taxpayer in a taxable year based on the taxpayer's method of accounting. The cash receipts and disbursements method of accounting (cash method) generally requires an item to be included in income when actually or constructively received. In contrast, an accrual method of accounting items generally requires an item to be included in income when all events have occurred that fix the right to its receipt and its amount can be determined with reasonable accuracy. Accrual methods of accounting, when compared to the cash method, generally are acknowledged to better reflect economic income and comport to generally accepted accounting principles. Present law places several restrictions on the use of the cash method for income tax purposes.

The installment method of accounting provides an exception to these general recognition principles by allowing a taxpayer to defer recognition of income from the disposition of certain property until payment is received. Under the installment method, a taxpayer recognizes the gain resulting from the disposition of property proportionately as payments are received on the installment note. Payments taken into account for this purpose generally include cash, marketable securities, and evidences of indebtedness that are payable upon demand or are readily tradable.

The use of installment reporting was originally permitted by Treasury regulations in 1918 for dealers and subsequently sanctioned by Congress in 1926 for dealers and nondealers, subject to certain conditions. As explained by the Supreme Court in *South Texas Lumber Co*, 333 U.S. 496 (1948), the installment method of reporting was enacted to relieve taxpayers who adopted it from having to pay income tax in the year of sale based on the full amount of anticipated profits when in fact they had received in cash only a small portion of the sales price. However, beginning with the Tax Reform Act of 1986 (1986 Act), the availability of the installment method has been restricted and the benefits derived from its use have been substantially reduced. For example, use of the installment method was denied for revolving credit sales and sales of certain publicly traded property by the 1986 Act and for dealer dispositions of real or personal property, with exceptions for farming property, timeshares and residential lots, by the Revenue Act of 1987 (1987 Act). In addition, the 1987 Act significantly limited the benefits of using the installment method by imposing interest charges on the deferred tax liability attributable to certain installment obligations and by treating pledges of certain installment obligations as payment, thereby triggering the recognition of income.

Administration's Proposal and Subsequent Legislation

The Administration's Fiscal Year 2000 budget proposed to prohibit the use of the installment method to report income from an installment sale that would otherwise be reported on an accrual method of accounting (installment sales provision). The proposal did not change the use of the installment method by cash method taxpayers or the present-law exceptions regarding the availability of the installment method for sales of farming property, timeshares or residential lots. The Administration also proposed to eliminate certain inadequacies in the pledging rules by clarifying that put rights or other similar arrangements will receive the same treatment as pledges. The installment sales provision was proposed to be effective for sales or other dispositions occurring on or after the date of enactment.

As indicated in the General Explanations of the Administration's Fiscal Year 2000 Revenue Proposals, the installment sales provision was proposed because the use of the installment method is inconsistent with an accrual method of accounting and effectively allows an accrual method taxpayer to recognize income from the sale of certain property using the cash method. Consequently, the installment method fails to reflect the economic results of a taxpayer's business during the taxable year.

The policy reason underlying the installment method of accounting is to impose tax when the taxpayer has the wherewithal to pay the tax (i.e., when the taxpayer has received the cash). It was difficult to reconcile this policy reason, however, with an accrual method, which requires the payment of tax on trade or business receivables prior to the receipt of the related cash. Moreover, as a result of the repeal of the installment method for revolving credit sales, certain publicly traded property and dealer dispositions, the law already required taxpayers to include in income amounts that had not been collected. Allowing an exception for accrual method taxpayers for the disposition of certain property, but not for other property, created additional inconsistencies in the application of accounting methods.

The installment sales provision and the pledge rule clarification were enacted as part of the Ticket to Work and Work Incentives Improvement Act of 1999 (1999 Act), effective for sales or other dispositions occurring on or after December 17, 1999.

Effect of the Legislative Change

After the 1999 Act was passed by Congress, small businesses began to express concerns that the repeal of the installment method for accrual method taxpayers negatively impacted the sales of small businesses. In particular, small business groups have asserted that the use of the installment method to report the gain on the sale of the business enabled a seller to get a higher price for its business and a buyer to purchase a business for which bank financing was not readily available. As a result of the enactment of the installment sales provision, these small business groups have estimated that the sales price of some closely held businesses may be reduced by 8 percent or more.

The installment sales provision was made applicable to all accrual method taxpayers, not just to small businesses. The ability for an accrual method taxpayer to defer a realized gain until the related cash was received is inconsistent with an accrual method, regardless of the size of the taxpayer's business. The provision applies to both casual sales of property and sales of businesses that would otherwise be reported on an accrual method. However, the extent of the impact of the provision on the sales of small businesses apparently was unforeseen by policymakers and potentially affected taxpayers and their advisors during the legislative process.

The repeal of the installment method for accrual method taxpayers decreases the flexibility of structuring certain business dispositions, but does not totally eliminate the use of the installment method in such transactions. As indicated in the legislative history to the provision, the sale of stock of an accrual method business by a cash method taxpayer will continue to qualify for the installment method. Similarly, the sale of an interest in an accrual method partnership by a cash method taxpayer generally should continue to be eligible for installment reporting. On the other hand, sales of assets of an accrual method corporation or partnership will no longer qualify for installment reporting. These different tax results add to the tension that already exists between buyers and sellers with respect to the decision to sell assets or stock. Buyers generally want to purchase assets in order to avoid contingent liabilities associated with the stock and to obtain an asset basis "step-up" to fair market value. On the other hand, sellers typically want to sell stock in order to avoid two levels of tax, to obtain favorable capital gain treatment, and to transfer contingent liabilities associated with the stock.

Treasury's Response

Treasury's Office of Tax Policy has met several times with interested industry groups, including the National Federation of Independent Businesses, National Association of Manufacturers, American Institute of Certified Public Accountants, Small Business Legislative Council, and U.S. Chamber of Commerce, and listened to their concerns about the effect of this recent legislation on sales of small businesses. These groups also requested clarification of the effect of the installment sales provision on particular transactions. For example, they requested that we address the sale by a cash method individual of an accrual method business conducted as a sole proprietorship; the continued viability of section 453(h), which allows a shareholder of a liquidating corporation to use the installment method to report the gain on the exchange of its stock for an installment obligation of the purchaser of the corporation's assets, and the effect of a section 338 election, under which a stock sale is deemed an asset sale for tax purposes, on a stock sale of an accrual method corporation by a cash method seller.

We intend to issue guidance in the near future that will address the availability of the installment method for most common disposition transactions. In addition, we will issue broader guidance that should alleviate the effect of the legislation on small businesses, regardless of the entity's form, as well as provide additional tax accounting relief. As the installment sales legislation applies to accrual method taxpayers, a threshold issue arises as to which taxpayers are required to use an accrual method, an issue that we have been aggressively studying in other contexts. As indicated on the most recent Treasury and IRS Priority Guidance Plan, we intend to issue guidance addressing the requirements to account for inventories and, as a result, to use an accrual method. Part of this planned guidance generally will allow a qualified taxpayer with average annual gross receipts of $1 million or less to use the cash method and, thus, the installment method. The details for qualifying for this exception and the procedures to automatically change to the cash method will be provided in guidance that should be published in the near future.

While we believe it is important to provide clear and timely guidance to clarify the effect of the installment sales provision on particular transactions and certain small businesses, we believe the law is clear that where an accrual method entity sells assets, or is deemed to sell assets, the installment method will no longer be available because the method of accounting of the entity controls the transaction. Consequently, providing relief for such transactions will require legislation.

Overall, we believe the policy underlying the legislation is appropriate. The installment method is inconsistent with an accrual method of accounting, which generally requires a taxpayer to pay tax on a realized gain, regardless of whether the taxpayer has received the related cash. However, we now understand that the legislation has imposed financial burdens on small businesses that override this basic tax policy concern. As such, we are eager to work with Congress to provide a legislative solution to alleviate this unforeseen impact of the installment sales provision.

Any legislative response should be targeted to address the legitimate concerns of affected taxpayers. To address the liquidity problems facing sellers of small businesses (e.g., businesses with less than $5 million in gross receipts), use of the installment method could be allowed (perhaps with an interest charge), regardless of the seller's method of accounting. If there is concern that different types of flow-through entities are treated differently (because sales of partnerships may be structured to allow the buyer to obtain a stepped-up basis and the seller to use the installment method while sales of S corporations allow either the buyer to obtain a stepped-up basis or the seller to use the installment method), special rules could be provided to level the playing field. In addition, legislation also could clarify the treatment of sole proprietorships and address other issues related to the use of deferred payments. Finally, any legislative solution should promote simplification and administrability.

This concludes my prepared remarks. We look forward to working with you, Mr. Chairman, Mr. Coyne, and members of the Subcommittee and full Committee in developing any legislative proposals deemed appropriate, and we will keep you informed of our proposed administrative actions. I would be pleased to respond to your questions.

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DEPARTMENT OF THE TREASURY

FEDERAL RESERVE BOARD

FOR IMMEDIATE RELEASE
February 29, 2000

Contact: Bill Buck, Treasury
202-622-2960

David Skidmore,
Federal Reserve
202-452-2955

U.S. EFFORTS TO COMBAT GLOBAL COUNTERFEITING ARE WORKING

Efforts to combat international counterfeiting of U.S. currency are working, according to a Treasury Department and Federal Reserve Board report released on Tuesday.

"Our efforts to make the U.S. currency as secure as possible are working," said Treasury Secretary Lawrence H. Summers. "By combating global counterfeiting we can ensure that our currency will remain a symbol of our strength and stability."

"The currency of the United States represents the strength and dependability of our economy and the financial system that supports it. As such, its integrity must be carefully protected," said Edward W. Kelley, Jr., member of the Board of Governors of the Federal Reserve System. "This study indicates that the new-design notes have been quite successful in thwarting counterfeiters. The Federal Reserve Bank of New York has detected a considerably smaller proportion of counterfeit notes among genuine new-design notes than among older-design notes."

The report, *The Use and Counterfeiting of United States Currency Abroad*, mandated by Congress as part of the Anti-Terrorism and Effective Death Penalty Act of 1996 and conducted by the Treasury Department and the Federal Reserve, is a comprehensive review of the international use and counterfeiting of U.S. currency.

The efforts to protect U.S. currency have been effective. The incidence of counterfeiting is low both inside and outside the United States but slightly higher outside the United States, with approximately one note per 10,000 counterfeit worldwide. The U.S. Secret Service is working closely with overseas banks and law enforcement agencies to help suppress counterfeiting activities.

The report highlighted important steps the U.S. Government is currently taking to combat global counterfeiting:

- A pilot Secret Service website allows law enforcement agencies and currency handlers worldwide to report instances of counterfeiting.
- Through its extended custodial inventory program, the Federal Reserve Bank of New York has established overseas cash depots at foreign banks. By lowering transportation costs, these facilities allow overseas dollar users to more efficiently obtain new U.S. currency and return worn and old-design U.S. currency.
- U.S. enforcement agencies are working with their overseas counterparts to target cities and countries that first receive counterfeit notes in the wholesale distribution chain.

The study concluded that between $250 billion and $350 billion of the $500 billion of U.S. currency in circulation was held overseas at the end of 1998.

According to the report, technology will continue to require new and innovative responses to maintain the security of U.S. currency. These efforts will include: further security enhancements to our currency design, enhanced cooperation with international law enforcement agencies and additional training of foreign law enforcement and financial officials in counterfeit detection.

The report is available through the Treasury Office of Public Affairs at (202) 622-2960 or the Federal Reserve Office of Public Affairs at (202) 452-2955 or via the Internet at www.treas.gov/press.

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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

February 29, 2000

The Treasury Department today released U.S. reserve assets data for the week ending February 25, 2000.

As indicated in this table, U.S. reserve assets totaled $69,318 million as of February 25, 2000, down from $69,643 million as of February 18, 2000.

in US millions)

. Official U.S. Reserve Assets		February 18, 2000			February 25, 2000	
TOTAL		69,643			69,318	
	Euro	Yen	TOTAL	Euro	Yen	TOTAL
1. Foreign Currency Reserves [1]						
a. Securities	4,959	5,789	10,748	4,932	5,784	10,716
Of which, issuer headquartered in the U.S.			0			0
b. Total deposits with:						
b.i. Other central banks and BIS	8,536	11,206	19,743	8,466	11,196	19,662
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]			17,743			*17,609*
3. Special Drawing Rights (SDRs) [2]			10,361			*10,282*
4. Gold Stock [3]			11,048			11,048
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 February 18, 2000 are final Data for SDR holdings and the reserve position in the IMF shown as of February 25, 2000 (in italics) reflect preliminary adjustments by the Treasury to the February 18, 2000 IMF data.

3/ Gold stock is valued monthly at $42.2222 per fine troy ounce Values shown are as of January 31, 2000. The December 31, 1999 value was $11,048 million.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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U.S. International Reserve Position (cont'd)

II. Predetermined Short-Term Drains on Foreign Currency Assets

	February 18, 2000	February 25, 2000
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

	February 18, 2000	February 25, 2000
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		

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
February 29, 2000

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 52-WEEK BILLS

Term:	364-Day Bill
Issue Date:	March 02, 2000
Maturity Date:	March 01, 2001
CUSIP Number:	912795FV8

High Rate: 5.840% Investment Rate 1/: 6.197% Price: 94.095

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	$ 21,505,899	$ 7,320,299
Noncompetitive	1,082,552	1,082,552
PUBLIC SUBTOTAL	22,588,451	8,402,851 2/
Foreign Official Refunded	1,612,000	1,612,000
SUBTOTAL	24,200,451	10,014,851
Federal Reserve	4,805,000	4,805,000
Foreign Official Add-On	792,000	792,000
TOTAL	$ 29,797,451	$ 15,611,851

Median rate 5.830%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 5.790%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 22,588,451 / 8,402,851 = 2.69

1/ Equivalent coupon-issue yield.
2/ Awards to TREASURY DIRECT = $757,015,000

http://www.publicdebt.treas.gov

LS-430

HIGHLIGHTS OF TREASURY OFFERING
OF 13-DAY CASH MANAGEMENT BILL

February 29, 2000

Offering Amount	$25,000 million
Description of Offering:	
Term and type of security	13-day Cash Management Bill
CUSIP number	912795 DM 0
Auction date	March 2, 2000
Issue date	March 3, 2000
Maturity date	March 16, 2000
Original issue date	September 16, 1999
Currently outstanding	$24,132 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.